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Montana.  
Implementation  
Plan Task Force  
Implementation  
plan to dissolve  
the Worker's  
Compensation

**IMPLEMENTATION PLAN  
TO DISSOLVE THE  
WORKERS' COMPENSATION DIVISION  
AND CREATE THE  
STATE COMPENSATION MUTUAL INSURANCE FUND**

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**DECEMBER 18, 1989**

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**IMPLEMENTATION PLAN TASK FORCE:**

**JOHN HUTH, STATE FUND  
BOB KUCHENBROD, DEPUTY DIRECTOR, OBPP  
BILL MANDEVILLE, OBPP  
BRIAN McCULLOUGH, DEPT. OF LABOR & INDUSTRY  
CATHY REARDON, DEPT. OF ADMINISTRATION**



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Implementation plan to dissolve the Work



STAN STEPHENS  
GOVERNOR

January 10, 1990

Mr. Paul Verdon  
Legislative Council - Room 138  
State Capitol  
Helena, MT 59601

RECEIVED

JAN 12 1990

Dear Mr. Verdon:

MONTANA LEGISLATIVE  
COUNCIL

I have enclosed a copy of the "Implementation Plan to Dissolve the Worker's Compensation Division and Create the State Compensation Mutual Insurance Fund."

As you know, the 51st Legislature established the State Compensation Mutual Insurance Fund (or State Fund). Effective January 1, 1990, delivery of the state's workers' compensation insurance will be managed and administered by a nonprofit, independent public corporation called the State Fund.

The planning document enclosed contains important policy statements pertaining to the initial organization of the State Fund and its separation from the Department of Labor and Industry. The commissioners and directors of the involved agencies adopted these policy statements on December 28, 1989.

The agencies involved also have agreed to draft a subsequent planning document which will include updated organizational charts and the goals and objectives of the State Fund and Department of Labor and Industry relative to the legislative intent of SB428. This important document should become available for public review within the next six months.

Ensuring the solvency of Montana's workers' compensation insurance program is a critically important item on my administration's agenda. With your continued support, we will develop an actuarially sound program which will benefit Montanans for many generations.

Sincerely,

STAN STEPHENS  
Governor

Date: DEC 28 1992

SUBJECT: COOPERATIVE IMPLEMENTATION PLAN TO ESTABLISH THE STATE COMPENSATION  
MUTUAL INSURANCE FUND


The following document establishes policy statements to govern the separation of the Workers' Compensation Division from the Department of Labor and Industry into the "State Compensation Mutual Insurance Fund" or "State Fund" established by the passage of Senate Bill #428, 51st Legislative Assembly.


The signers indicated below acknowledge the purposes of creating the State Fund as a mutual insurer in a department other than the Department of Labor and Industry are:


- (1) to remove any inherent conflicts between a state agency charged with the responsibility of regulating workers' compensation insurers while simultaneously providing workers' compensation insurance to employers for a fee; and
- (2) to ensure the solvency of the workers' compensation insurance program offered by the State of Montana as "Workers' Compensation Plan Number Three".

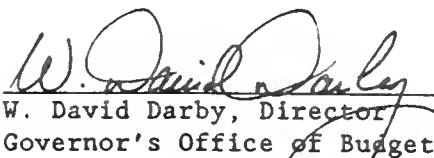
The following department heads hereby cause their hands to set forth signatures as evidence of their agreement to the policies contained in the attached "Cooperative Implementation Plan".

.....

  
\_\_\_\_\_  
Mario Micone, Commissioner  
Dept. of Labor & Industry

  
\_\_\_\_\_  
Patrick Sweeney, Executive Director  
State Fund

  
\_\_\_\_\_  
Dave Ashley, Acting Director  
Dept. of Administration

  
\_\_\_\_\_  
W. David Darby, Director  
Governor's Office of Budget and Program Planning

MAY 2 6 1973

OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING



STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

Date: December 18, 1989

From: Cooperative Implementation Plan Task Force

Subject: Implementation Plan to Dissolve the Workers' Compensation Division and Create the State Compensation Mutual Insurance Fund

At the direction of Governor Stephens; David Darby, director of the Office of Budget and Program Planning, organized a task force to develop a document presenting to the policies governing the transition of functions from the Workers' Compensation Division, Department of Labor and Industry (DLI), to other programs in DLI and the State Compensation Mutual Insurance Fund (State Fund), a nonprofit independent public corporation.

The expressed mission of the task force was twofold:

Phase I: Identify and establish the initial separation between DLI and the Division of Workers' Compensation necessary to make the State Fund operational. This separation is necessary to create the basis of implementing SB428, an act establishing the new State Compensation Mutual Insurance Fund. It is understood that this separation has been started but can not be fully completed as of January 1, 1990.

Phase II: The final phase of implementation of SB428 will include updated organization charts and goals and objectives for the reorganization of DLI and the State Fund. These newly organized functions will be presented to the Governor's Office by April 30, 1990. This time-frame will provide for the management of the respective entities to work with their new staff to define their goals and objectives to implement the intent of SB428.



.....

This document pertains strictly to Phase I -- the initial separation. Using Mr. Micone's memorandum of August 25 and Mr. Darby's memorandum of November 7, 1989, as its point of departure; the task force analyzed existing policies and their ramifications. Additional policies were identified and expressed.

The policy statements contained in this document resolve pertinent issues currently confronting the involved agencies. Additional issues will be identified as the new agency proceeds with the implementation of SB428.

The dissolution of an established agency and the creation of a new agency is a complicated and detailed process. Although the effective date for the creation of the State Fund is January, 1, 1990; additional items will require resolution, correction and/or adjustments during the remainder of FY90.





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# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'A'**

### **GENERAL POLICY**

### **STATEMENTS**

**December 18, 1989**



**Policy #1:       Approving Authority:**

The State Compensation Mutual Insurance Fund (ergo-State Fund) is a nonprofit, independent public corporation. The State Fund will comply with applicable rules and statutes of state government.

The management and control of the State Fund is vested solely in its Board of Directors. The Board is vested with full power, authority and jurisdiction of the State Fund. (MCA 39-71-2315)

The management of the State Fund is vested in a Board of Directors. The Board of Directors of the State Fund will be the approving authority with respect to FTE levels, FTE pay schedules, budget amendments, operational plan changes and appropriation transfers.



**Policy #2****Reporting Entity: (D.O.A. Directive):**

The State Fund is a reporting entity of the State of Montana and will be included in the State's financial statements. The assets and liabilities of the State Fund will be part of the state's combined balance sheet. The financial condition of the State Fund and the financial status of its operation will be recorded in accordance to "Governmental Accounting and Financial Reporting Standards".





**Policy #3:        Budgetary Reporting and Oversight:**

The State Fund will submit its budgetary requests through the Department of Administration and will be included in the executive budget request presented to the legislature. Modifications to the State Fund's budget will be presented to the Office of Budget and Program Planning for informational purposes only.

(a) Department of Administration's Responsibilities:

The Board of Directors of State Fund is allocated to the Department of Administration for administrative purposes only as prescribed in MCA 2-15-121. (MCA 2-15-1019(2))

(b) Applicability of State Budgetary Rules and Procedures:

- The State Fund will submit reports required of it by law or by the Governor (MCA 2-15-121 (1) (c)).
- The management of the State Fund's budget will be in compliance with applicable management memos and budgetary laws, rules and regulations.

(c) Budget Amendments:

The Office of Budget and Program Planning will process all budget amendments approved by the Board of Directors of the State Fund following their review by the Legislative Finance Committee.



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**Policy #4: State Budgetary and Accounting System:**

The State Fund will continue to use the Statewide Budget and Accounting System (SBAS) and the Payroll, Personnel and Position Control System (P.P.P.) for recording financial and staff activity.

(a) Agency Codes:

The State Fund and Department of Labor and Industry will establish new program codes as required to incorporate new functions into organizations effected by the reorganization caused by SB428. These new agency and program codes will be effective January 1, 1990, for accounting purposes.

(b) Appropriation Numbers:

Upon the request from the management of the State Fund, the Office of Budget and Program Planning will assign the State Fund only one appropriation number if such an assignment will enhance the autonomy of the State Fund.

(c) Disposition of the accounting entities for the Workers' Compensation Division:

The Department of Labor and industry may retain the current codes and designations for accounting entities used by the Workers' Compensation Division and transferred to the Department of Labor and Industry during the reorganization caused by SB428.

(d) State Fund Program:

The Office of Budget and Program Planning agrees to establish only one program code, at least initially, for the entire State Fund.



**Policy #5:            Transition Period:****(a)    Supplementary Decisions:**

Supplementary decisions will be required to fully implement SB428. These decisions, including resolution of issues described elsewhere in the plan, will be reached as expeditiously as possible over the next several months with appropriate SBAS and other adjustments made. The purpose of this policy is to allow a transition period during which more detailed adjustments can be accommodated.

**(b)    Retroactivity:**

Any necessary corrections and/or adjustments after January 1, 1990, to fulfill the stipulations and intent of SB428 will be made retroactively within the appropriate and respective fiscal year or biennium budget.



**Policy #6:            Designation of Fund Type:            (D.O.A. Directive):**

The State Fund will be identified as an enterprise fund. The enterprise fund designated for the State Fund will include the Fund's operational cost and benefit payments.

**(a)    Property of the State Fund:**

All premiums and other money paid to the State Fund, all property and securities acquired through the use of money belong to the State Fund, and all interest and dividends earned upon money belonging to the State Fund, are the sole property of the State Fund and must be used exclusively for its operations and obligations. (MCA 39-71-2320)

**(b)    Investment of State Fund:**

State Fund money must be invested by the Board of Investments as provided for in MCA 2-15-1808. (MCA 39-71-2320)





**Policy #7: Personnel Management:**

The State Fund will be exempt from Parts #1 and #2 of MCA 2-18-103 allowing salary levels of Fund employees to differ from the state pay matrix.

(a) Staff for Board of Directors:

The Board of Directors may employ its own staff. (MCA 2-15-1019 (2)).

(b) Management Staff for the State Fund:

The Executive Director of the State Fund may hire the management staff of the State Fund. Management personnel serve at the pleasure of the Executive Director. (MCA 39-71-2317)

(c) Equal Opportunity Employment and Affirmative Action:

The Board of Directors of the State Fund will prepare and adopt an affirmative action statement and personnel policies to assure equal opportunity employment.



**Policy #8:      Disposition of Money in the State Fund:**

The money coming into the State Fund must be deposited into the State Treasury and held in trust for the purpose for which the money was collected. The State Fund will not open checking accounts or receive loans which are not recorded and reported in the state accounting system.

**(a)    Assets and Liabilities of Prior State Fund:**

All assets and funds held by the state compensation insurance fund must be transferred to the State Fund. (MCA 39-71-2319)

**(b)    Outstanding Claims and Indebtedness:**

The State Fund will assume the liability for all outstanding claims and indebtedness for the previously existing state fund. (MCA 39-71-2319)



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**Policy #9: Implementation of SB428:**

The Department of Labor and Industry and the Board of Directors of the State Fund will negotiate a fair split of the existing Workers' Compensation Division. Disposition of existing FTE's and appropriations will be based on reasonable justification and subject to OBPP approval.

(a) Mediation:

The Office of Budget and Program Planning will act as mediator if difficulties arise during these negotiations.

(b) Approval of the Disposition of the Workers' Compensation Division:

The Office of Budget and Program Planning must approve the separation of FTE's and budget authority.

(c) Organizational Charts:

The Department of Labor and Industry and the State Fund will maintain current organizational charts pursuant to the administrative codes of the State of Montana.

(d) Resolution of Conflicts During the Transition:

The Governor will resolve any conflicts as to the proper distribution of properties, budget and FTE authorities. His decision is final.  
(MCA 2-15-132)



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'B'**

### **ORGANIZATION CHARTS**

**December 18, 1989**





# **COOPERATIVE IMPLEMENTATION PLAN**

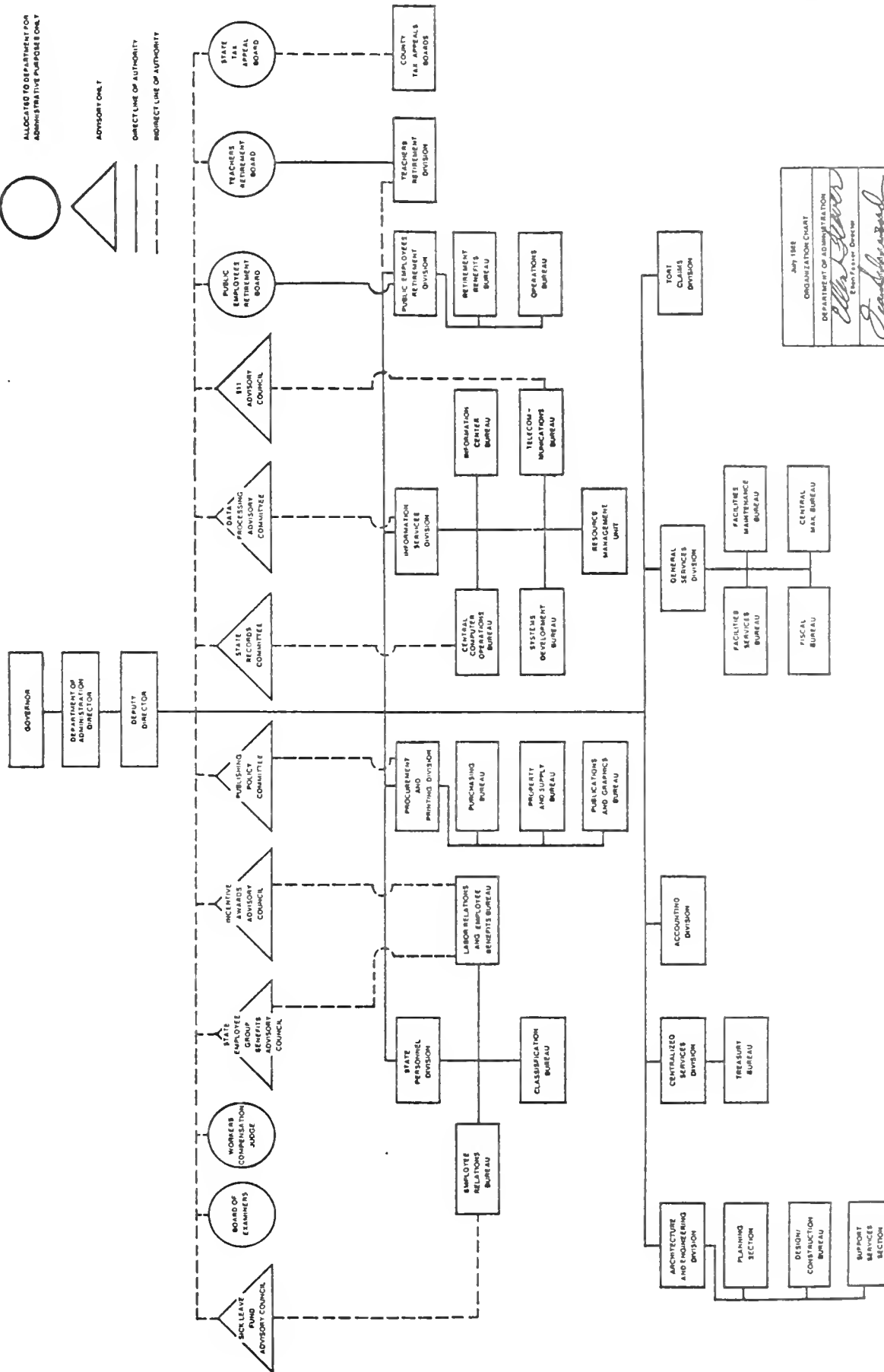
## **ORGANIZATION CHARTS**

**(Original)**

**December 18, 1989**

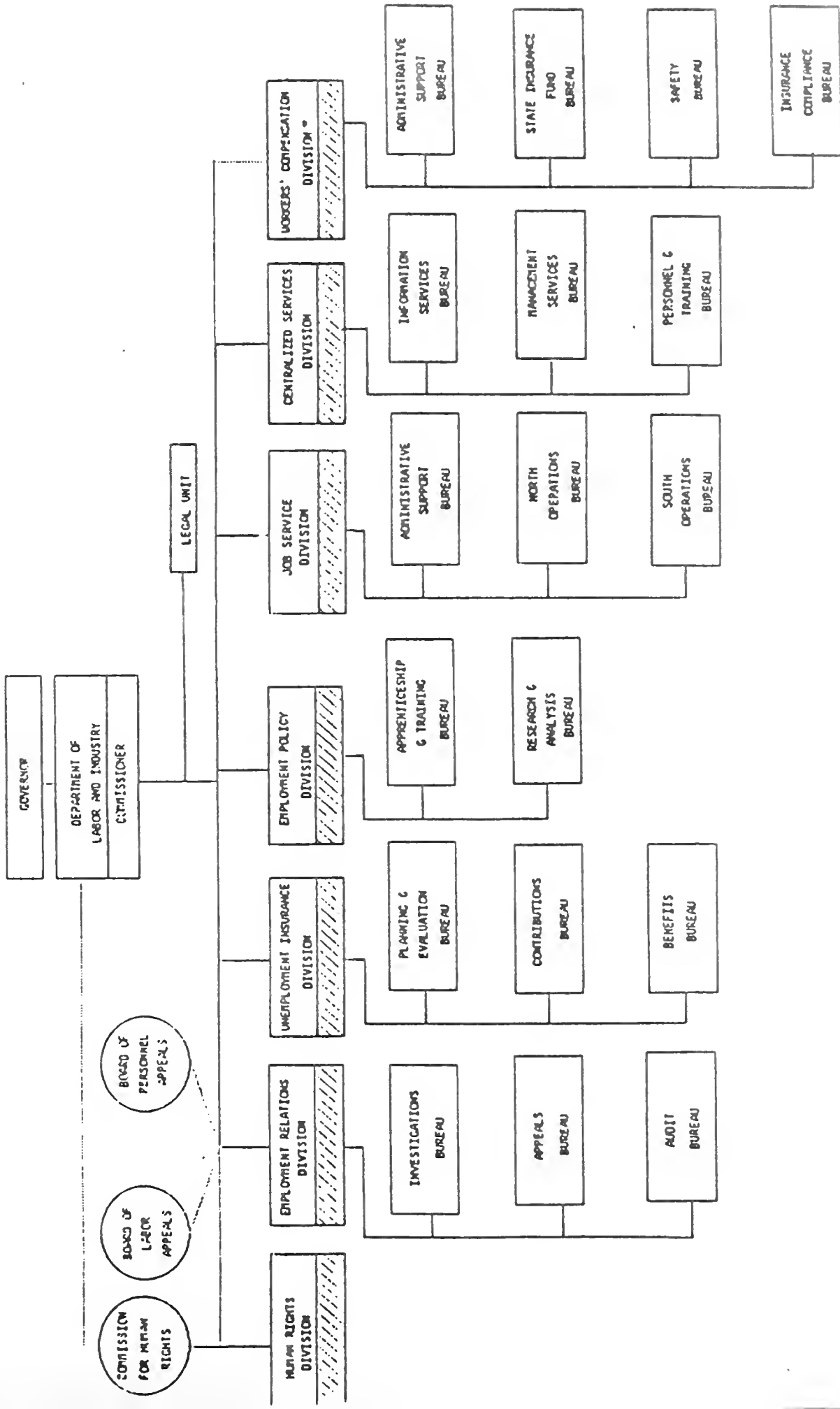


ALLCATIONS TO DEPARTMENTS FOR  
ADMINISTRATIVE PURPOSES ONLY



July 1988  
ORGANIZATION CHART  
DEPARTMENT OF ADMINISTRATION  
*John L. ...*  
Executive Director  
*James ...*





DEPARTMENT OF LABOR AND INDUSTRY

JUNE 1986

*Edward J. Tynan*  
COMMISSIONER



# **COOPERATIVE IMPLEMENTATION PLAN**

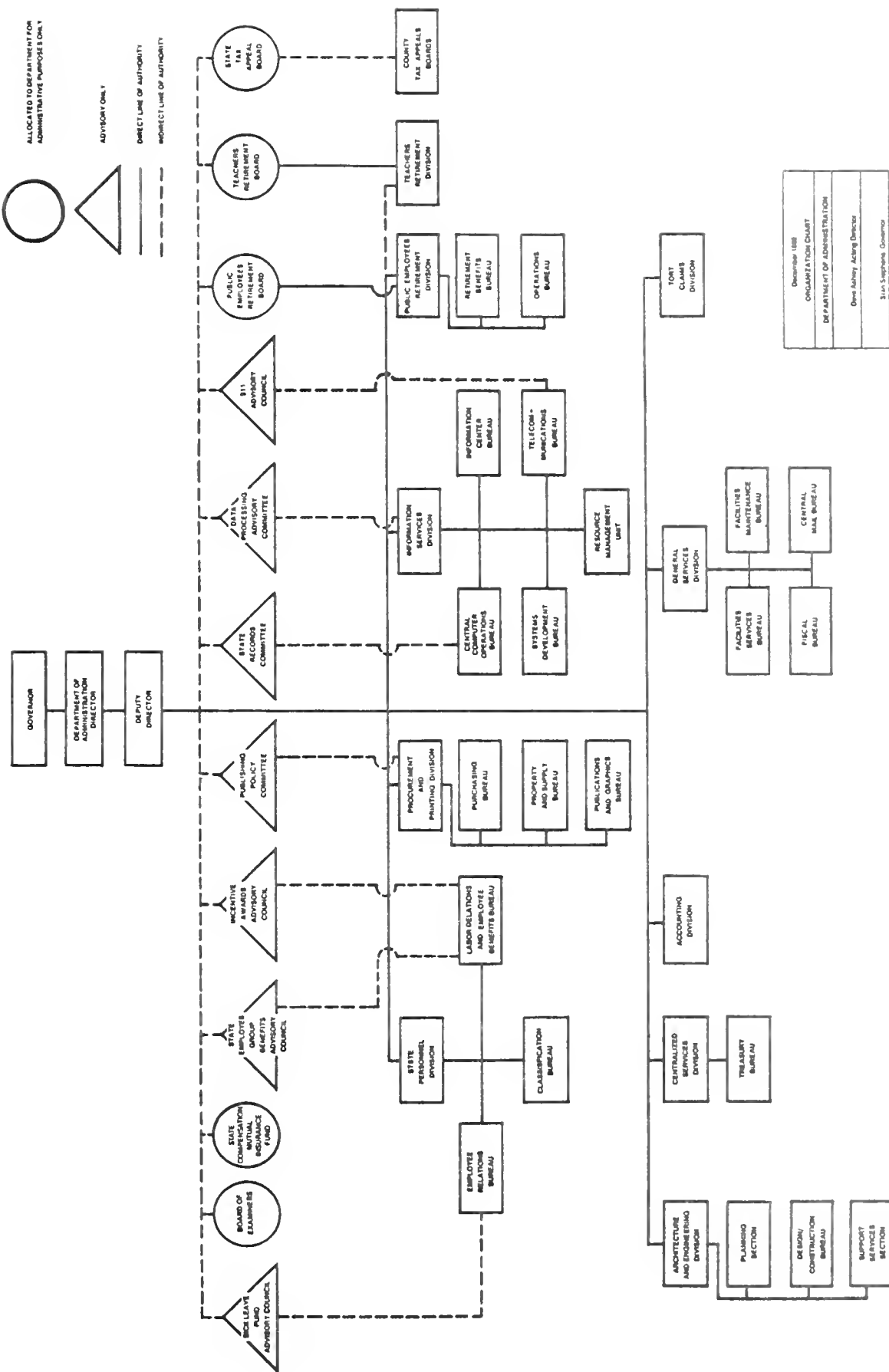
## **ORGANIZATION CHARTS**

**(Reorganized)**

**December 18, 1989**

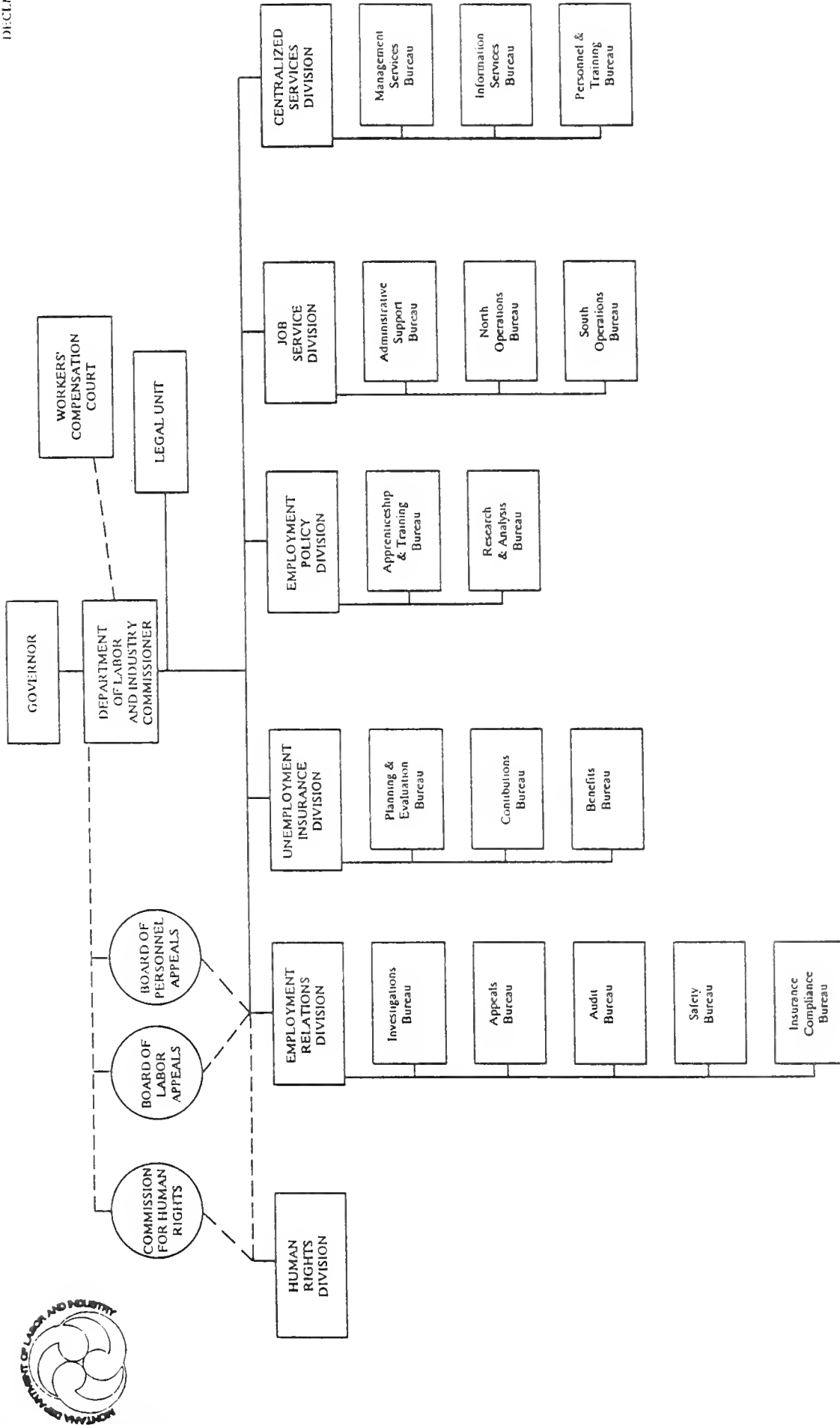






December 1988  
ORGANIZATION CHART  
DEPARTMENT OF ADMINISTRATION  
Deputy Acting Director  
John Stephens, Governor







# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'C'**

### **PROGRAM DESCRIPTIONS**

**December 18, 1989**



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PROGRAM DESCRIPTIONS**

**(Department of Labor and Industry)**

**December 18, 1989**





AGENCY: D.L.I.

AGENCY DESCRIPTION

DEPT. LABOR/INDUSTRY Agency Summary	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
APPROPRIATIONS:			
Centralized Services:	\$2,721,046	\$ 2,759	\$2,723,805
Employment Relations:	\$2,160,361	\$2,470,362	\$4,630,723
Employment Policy:	\$2,694,974	\$ 68,469	\$2,763,443
Worker's Comp. Court:	\$ 0	\$ 315,643	\$ 315,643
Workers' Comp. Division:			
-- Admin. Services:	\$2,612,695	<\$2,612,695>	\$ 0
-- Insurance Fund:	\$5,039,391	<\$5,039,391>	\$ 0
-- Safety:	\$ 896,792	<\$ 896,792>	\$ 0
-- Compliance:	\$1,844,373	<\$1,844,373>	\$ 0
Total Appropriations	\$17,969,632	<\$7,536,018>	\$10,433,614
FUNDING:			
General Fund:	\$ 542,143	\$ 0	\$ 542,143
State Special Revenues:	\$9,980,806	<\$7,536,018>	\$2,444,788
Federal Funds:	\$4,727,077	\$ 0	\$4,727,077
Proprietary Funds:	\$ 3,500	\$ 0	\$ 3,500
Intergovernmental:	\$2,716,106	\$ 0	\$2,716,106
Trust Funds:	\$ 0	\$ 0	\$ 0
	\$17,969,632	<\$7,536,018>	\$10,433,614

AGENCY DESCRIPTION:

The Department of Labor and Industry is responsible for regulatory oversight of all workers' compensation insurers in the state including the State Fund.



AGENCY: D.L.I.

PROGRAM: Centralized Services

DEPT. LABOR/INDUSTRY	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Centralized Services			
FTE Authority:	67.0	4.0	71.0
STATE APPROPRIATIONS:			
-----			
Personnel Cost:	\$1,858,205	0	\$1,858,205
Operating Cost:	818,902	\$2,759	821,661
Equipment Cost:	43,939	0	43,939
Nonoperating Cost:	0	0	0
-----	-----	-----	-----
Total Expenses:	\$2,721,046	\$2,759	\$2,723,805
FUNDING:			
-----			
General Fund:	\$ 0	\$2,759	\$ 2,759
State Special Revenues:	4,940	0	4,940
Federal Funds:	0	0	0
Proprietary Funds:	2,716,106	0	2,716,106
Intergovernmental:	0	0	0
Trust Funds:	0	0	0
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Total Funding:	\$2,721,046	\$2,759	\$2,723,805

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

Centralized Services provides overall management and support services to the Dept. of Labor and Industries including legal assistance, personnel hiring and training, data processing and budgeting.

REVISIONS CAUSED BY SB428:

Functions in the areas of legal accounting, microfilming, mail and supply will be transferred from the Workers' Compensation Division's Administrative Support Bureau. These are the estimated resources that provided supportive services to the Safety Bureau and Insurance Compliance Bureau in the Worker's Compensation Division.

FUNDING:

Centralized Services is funded entirely by inter-service fees charged to other programs in the Dept. of Labor and Industry. The functions transferred from the Worker's Compensation Division will be funded from 'State Special Revenue Fund: Worker's Compensation' which receives its funding from premium assessments charged the state compensation insurance fund, private insurers and self-insurance.



AGENCY: D.L.I.

PROGRAM: Employment Policy

DEPT. LABOR/INDUSTRY	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Employment Policy			

FTE Authority:	47.0	3.0	50.0
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EXPENSES:

Personnel Cost:	\$1,329,709	\$ 61,757	\$1,391,466
Operating Cost:	1,183,110	6,712	1,189,822
Equipment Cost:	182,155	0	182,155
Nonoperating Cost:	0	0	0
<b>Total Expenses:</b>	<b>\$2,694,974</b>	<b>\$ 68,469</b>	<b>\$2,763,443</b>

FUNDING:

General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	0	42,741	42,741
Federal Funds:	2,694,974	25,728	2,720,702
Proprietary Funds:	0	0	0
Intergovernmental:	0	0	0
Trust Funds:	0	0	0
<b>Total Funding:</b>	<b>\$2,694,974</b>	<b>\$ 68,469</b>	<b>\$2,763,443</b>

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

The Employment Policy Division develops overall employment policies and plans employment training for the Department of Labor and Industry. The Division consist of the following bureaus:

- 1) Apprenticeship Bureau which administers the apprenticeship programs,
- 2) Staff for the Job Training Partnership Act (JTPA) and other state-funded job training programs,
- 3) Research and Analysis Bureau which develops data and statistics related to employment, conducts surveys and studies with contracting agencies, charts employment trends in the state and administers the Montana Career Information System (MCIS) and the State Occupational Information Coordinating Committee (SOICC).

The Employment Policy Division includes all the expenses for "prevailing wage" studies. These studies are conducted by the Investigations Bureaus of the Employment Relations Division to determine prevailing wage rates. The prevailing wage data is required to assure compliance with prevailing wage laws.



REVISIONS CAUSED BY SB428:

The Workers' Compensation Statistical function which provides statistical data to management and to the federal government will be incorporated into the Research and Analysis Bureau.

FUNDING:

- 1) Apprenticeship Bureau is funded by unemployment insurance administration tax revenues.
- 2) JTPA staff are supported with federal JTPA funds.
- 3) Research and Analysis Bureau is funded with federal funds allocated to other programs within the department according to their degree of usage.
- 4) Prevailing Wage Rate Studies: In FY88 general fund expenditures supported the prevailing wage studies which are now funded with unemployment insurance administration tax revenues. Federal funding increases because of expanding federal emphasis and funding for employment training efforts.
- 5) Workers' Compensation Statistical functions transferred from the Workers' Compensation Division's Administrative Support Bureau is funded by a combination of federal funds and premium assessments from the state compensation insurance fund, private insurers and self-insured employers.





AGENCY: D.L.I.

PROGRAM: Employment Relations

DEPT. LABOR/INDUSTRY	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Employment Relations			

FTE Authority:	55.0	57.75	112.75
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EXPENSES:

Personnel Cost:	\$1,578,203	\$1,451,076	\$3,029,279
Operating Cost:	566,158	433,858	1,000,016
Equipment Cost:	16,000	55,986	71,986
Nonoperating Cost:	0	529,442	529,442
<b>Total Expenses:</b>	<b>\$2,160,361</b>	<b>\$2,470,362</b>	<b>\$4,630,723</b>

FUNDING:

General Fund:	\$ 0	\$ 580,570	\$ 580,570
State Special Revenues:	254,164	\$ 1,824,541	2,078,705
Federal Funds:	1,902,697	\$ 65,251	1,967,948
Proprietary Funds:	3,500	\$ 0	3,500
Intergovernmental:	0	\$ 0	0
Trust Funds:	0	\$ 0	0
<b>Total Funding:</b>	<b>\$2,160,361</b>	<b>\$ 2,470,362</b>	<b>\$4,630,723</b>

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

Employment Relations includes the five member Board of Personnel Appeals, the three-member Board of Labor Appeals and three bureaus: 1) Audit, 2) Appeals, and 3) Investigations. It also conducts representation elections and investigates collective bargaining petitions and employee grievances. the division also includes the Workers' Compensation Mediation Unit.

REVISIONS CAUSED BY SB428::

Two bureaus were transferred from the Workers' Compensation Division to Employment Relations: Insurance Compliance Bureau and the Safety and Health Bureau. Insurance Compliance provides assistance in the interpretation and compliance of Workers' Compensation and Occupational Disease Acts to claimants, insurance adjusters and carriers, employers, attorneys, and medical providers. Insurance Compliance monitors the adequacy of coverage and payment to injured workers by private insurers.

The Safety and Health Bureau is responsible for administering the state's industrial safety laws and federal OSHA laws.

FUNDING:



The Audit Bureau is supported by those programs using the bureau within the Dept. of Labor and Industry. The investigations and appeals bureaus are funded from unemployment insurance administration tax proceeds and federal funds. The federal funds are from the federal fund sources for the programs serviced by the bureaus. The State Fund pays for its share of bureau activities. Other funds proceeds are earned from the sale of case decisions.

Through the transfer of Insurance Compliance Bureau functions from the Workers' Compensation Division, Employment Relations will receive general fund revenues for social security offsets, silicosis benefit payments and their associated administrative cost.

The transfer of the Safety and Health Bureau from the Workers' Compensation Division will cause Employment Relations to receive two additional sources of federal funding: 1) coal mine safety money funds one positions used to provide safety training for coal mine operations; and 2) OSHA funds efforts of loss control staff associated with consultations concerning federal safety requirements.

The remaining functions transferred from the Worker's Compensation Division to Employment Relations will be funded from 'State Special Revenue Fund: Worker's Compensation' which receives its funding from premium assessments charged the state compensation insurance fund, private insurers and self-insurance.



AGENCY: D.L.I.

Program: Worker's Comp. Court

DEPT. LABOR/INDUSTRY	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Workers' Comp. Court			
FTE Authority:	0	8.0	8.0
EXPENSES:			
-----			
Personnel Cost:	\$ 0	\$ 240,756	\$ 240,756
Operating Cost:	\$ 0	\$ 71,887	\$ 71,887
Equipment Cost:	\$ 0	\$ 3,000	\$ 3,000
Nonoperating Cost:	\$ 0	\$ 0	\$ 0
-----			
Total Expenses:	\$ 0	\$ 315,643	\$ 315,643
FUNDING:			
-----			
General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 315,643	\$ 315,643
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 0	\$ 0
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
-----			
Total Funding:	\$ 0	\$ 315,643	\$ 315,643

PROGRAM DESCRIPTION:

The Workers' Compensation Court adjudicates disputed compensation claims among workers, insurance carriers, and employers in accordance with MCA 39-71 and MCA 39-72.

REVISIONS CAUSED BY SB428:

The Program is transferred from the Department of Administration to the Department of Labor and Industry per the provisions of SB428. The effective date of the transfer is January 1, 1990.

FUNDING:

The Workers' Compensation Court is funded from 'State Special Revenue Fund: Worker's Compensation' which receives its funding from insurance premiums.



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PROGRAM DESCRIPTIVES**

**(State Fund)**

**December 18, 1989**





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AGENCY: STATE FUND

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AGENCY DESCRIPTIONS

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STATE FUND	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Program Summary			
<hr/>			
APPROPRIATIONS:			
-----			
Admin. Services:	\$ 0	\$ 2,413,233	\$ 2,413,233
Insurance Fund:	\$ 0	\$ 5,039,391	\$ 5,039,391
Safety Bureau:	\$ 0	\$ 187,781	\$ 187,781
Compliance:	\$ 0	\$ 211,256	\$ 211,256
	<hr/>	<hr/>	<hr/>
	\$ 0	\$ 7,851,661	\$ 7,851,661
FUNDING:			
-----			
General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 7,851,661	\$ 7,851,661
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 0	\$ 0
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
	<hr/>	<hr/>	<hr/>
	\$ 0	\$ 7,851,661	\$ 7,851,661

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## PROGRAM DESCRIPTION:

SB428 created the State Compensation Mutual Insurance Fund (ergo- State Fund) caused the transfer of Worker's Compensation Court from the Department of Administration to the Department of Labor and Industry and separated the Workers' Compensation Division into a separate agency. The State Fund is responsible for administering the Compensation Plan #3 (MCA 39-71). The Department of Labor and Industry is responsible for regulatory control and oversight of all workers compensation insurers in the state including the State Fund.



AGENCY: STATE FUND

PROGRAM: ADMINISTRATION

STATE FUND:	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Administration:			

FTE Authority:	0	36.5	36.5
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APPROPRIATIONS:

Personnel Cost:	\$ 0	\$ 911,456	\$ 911,456
Operating Cost:	\$ 0	\$ 911,978	\$ 911,978
Equipment Cost:	\$ 0	\$ 149,984	\$ 149,984
Nonoperating Cost:	\$ 0	\$ 439,815	\$ 439,815
<b>Total Expenses:</b>	<b>\$ 0</b>	<b>\$ 2,413,233</b>	<b>\$ 2,413,233</b>

FUNDING:

General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 2,413,233	\$ 2,413,233
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 0	\$ 0
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
<b>Total Funding:</b>	<b>\$ 0</b>	<b>\$ 2,413,233</b>	<b>\$ 2,413,233</b>

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

The Division of Workers' Compensation is administratively attached to the Department of Labor and Industry. The Division is responsible for administering the Worker's Compensation and Occupational Disease Acts and various occupational safety acts relating to Montana's workers. This includes administering the state workers' compensation insurance plan, monitoring private insurance carriers, and self-insured employers in relation to workers' compensation insurance.

The Administration Program is responsible for the overall management of the division and provides support services for the entire division.

REVISIONS CAUSED BY SB428:

Support services provided to the Insurance Compliance Bureau and the Safety Bureau will be transferred to the Department of Labor and Industry. These services include accounting, legal support, microfilming, mail distribution, and supplies.



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AGENCY: STATE FUND

PROGRAM: ADMINISTRATION

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FUNDING:

The Administration Program is funded by assessments from the State Compensation Insurance Fund, insurance carriers, self-insurers and federal funding from the Occupational Safety and Health Act (OSHA).



STATE FUND	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
State Insurance Fund			
FTE Authority:	0	130.0	130.0
EXPENSES:			
-----			
Personnel Cost:	\$ 0	\$ 2,927,468	\$ 2,927,468
Operating Cost:	\$ 0	\$ 2,003,590	\$ 2,003,590
Equipment Cost:	\$ 0	\$ 108,333	\$ 108,333
Nonoperating Cost:	\$ 0	\$ 0	\$ 0
Total Expenses:	\$ 0	\$ 5,039,391	\$ 5,039,391
FUNDING:			
-----			
General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 5,039,391	\$ 5,039,391
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 0	\$ 0
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
Total Funding:	\$ 0	\$ 5,039,391	\$ 5,039,391

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

The State Insurance Fund operates and administers the State Fund. They enroll employers, establish premium rates and pay claims to industrially injured workers according to state law.

REVISIONS CAUSED BY SB428:

The State Insurance Fund will maintain the same responsibilities as performed when it was part of the Workers' Compensation Division, DLI. It will still operate and administer the State Compensation Insurance Fund.

FUNDING:

The State Insurance Fund is funded by premium assessments on employers insured by the State Compensation Insurance Fund.





AGENCY: STATE FUND

PROGRAM: INSURANCE COMPLIANCE

STATE FUND	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Insurance Compliance			

FTE Authority:	0	6.5	6.5
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EXPENSES:

Personnel Cost:	\$ 0	\$ 122,911	\$ 122,911
Operating Cost:	\$ 0	\$ 88,345	\$ 88,345
Equipment Cost:	\$ 0	\$ 0	\$ 0
Nonoperating Cost:	\$ 0	\$ 0	\$ 0
<b>Total Expenses:</b>	<b>\$ 0</b>	<b>\$ 211,257</b>	<b>\$ 211,257</b>

FUNDING:

General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 0	\$ 0
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 211,257	\$ 211,257
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
<b>Total Funding:</b>	<b>\$ 0</b>	<b>\$ 211,257</b>	<b>\$ 211,257</b>

PROGRAM DESCRIPTION PRIOR TO REORGANIZATION:

The Insurance Compliance Bureau monitors insurer compliance with the requirement to pay compensation and medical benefits due an injured employee; monitors insurance coverage by all Montana firms and investigates uninsured employers; regulates self-insurance and private insurance carriers; and reviews and approves all settlements of compensation claims.

The Bureau classifies all accidents and maintains files for all self-insurance and private insurance claims. The bureau establishes hospital rates and medical fee schedules. It also regulates independent contractor exemptions, evaluates rehabilitation needs, conducts hearings on certain disputes under the Workers' Compensation Act.

The Bureau administers the Subsequent Injury Fund, silicosis Benefits Program, Social Security Offset Benefits Program, and the Occupational Disease Act.



PROGRAM DESCRIPTION AFTER REORGANIZATION:

Most of the Bureau's activities will be transferred to the Department of Labor and Industry. The Accident Cataloging section will be incorporated into the State Fund.

FUNDING:

The Insurance Compliance Bureau is funded by premium assessments from the State Compensation Insurance Fund, insurance carriers and self-insured. The Silicosis Program and the Social Security Offset Benefits Program are funded by the general fund. Uninsured activities are funded by penalties assessed against uninsured employers.



AGENCY: STATE FUND

PROGRAM: SAFETY

STATE FUND	FY90 APPROP	FY90 ADJUSTMENTS	FY90 REORGAN (estimated)
Safety and Health Bureau			

FTE Authority:	0	5.0	5.0
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EXPENSES:

Personnel Cost:	\$ 0	\$ 138,576	\$ 138,576
Operating Cost:	\$ 0	\$ 39,447	\$ 39,447
Equipment Cost:	\$ 0	\$ 9,758	\$ 9,758
Nonoperating Cost:	\$ 0	\$ 0	\$ 0
<b>Total Expenses:</b>	<b>\$ 0</b>	<b>\$ 187,781</b>	<b>\$ 187,781</b>

FUNDING:

General Fund:	\$ 0	\$ 0	\$ 0
State Special Revenues:	\$ 0	\$ 0	\$ 0
Federal Funds:	\$ 0	\$ 0	\$ 0
Proprietary Funds:	\$ 0	\$ 187,781	\$ 187,781
Intergovernmental:	\$ 0	\$ 0	\$ 0
Trust Funds:	\$ 0	\$ 0	\$ 0
<b>Total Funding:</b>	<b>\$ 0</b>	<b>\$ 187,781</b>	<b>\$ 187,781</b>

PROGRAM DESCRIPTION:

The Safety Bureau conducts safety inspections in all mining and related industries and in public agencies. Loss control safety consultation for Montana employers is provided with emphasis on employers insured with the State Fund. This includes identification of workplace hazards, safety training for supervisors and employees, and assistance in establishing and maintaining a safety program. The Bureau also provides for testing and licensing of crane/hoist/boiler operators and blasters.

PROGRAM DESCRIPTION AFTER REORGANIZATION:

Most of this program will transfer to the Department of Labor and Industry. A portion of the Loss Control program related to the State Fund activities will remain with the State Compensation Fund.

FUNDING:

The Safety Bureau is supported by premium assessments from the State Compensation Insurance Fund, insurance carriers, self-insurers, license fees, and by federal grants for the Mine Safety and Health Administration, and the On-Site Consultation Programs.



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'D'**

### **PERSONNEL MANAGEMENT**

**December 18, 1989**





# DEPARTMENT OF LABOR & INDUSTRY

## DIVISION OF WORKERS' COMPENSATION



STAN STEPHENS, GOVERNOR

MARGARET "PEG" CONDON BLDG.  
5 SO. LAST CHANCE GULCH

# STATE OF MONTANA

HELENA, MONTANA 59601

### EEO STATEMENT

The Executive Director and the employees of the State Compensation Mutual Insurance Fund are exempt from the provisions of the statewide classification system, parts 1 and 2 of Chapter 18, MCA. Section 39 of SB428 specifically implemented the exempt from classification provision. Chapters 3 through 11 of Chapter 18, MCA will apply to the Fund and will cover the compensation and benefits provisions with which the fund will adhere to. At this time, the Board of Directors of the Fund have determined the employees of the Fund will receive a salary comparable to the grade and step the employees received while employed by the Division of Workers' Compensation.

It is the policy of the State Compensation Mutual Insurance Fund to provide equal opportunity (EEO) and equal services, to all persons regardless of race, color, religion, creed, sex, national origin, age, handicap, marital status or political believe with the exception of those programs or service which have special requirements mandated by law. This policy includes, but is not limited to, employment, promotion, demotion, or transfer; recruitment or recruitment advertising; layoff of termination; direct or indirect compensation; and selection for training.

To accomplish this policy, the State Compensation Mutual Insurance Fund shall:

1. Apply the principles of affirmative action on all personnel actions for those affected classes of persons who have traditionally been denied equal access either consciously or unconsciously.
2. Make a commitment to provide reasonable accommodation to any known disability that may interfere with a disabled applicant's ability to compete in the selection process or a disabled employee's ability to perform the duties of the job.
3. Provide protection to employees against retaliation for lawfully opposing any discriminating practice whether it be the filing of an internal, external or union grievance, initiating an administrative or legal proceeding, or testifying or participating in any of the above.



The responsibility for coordinating the State Compensation Mutual Insurance Fund's Affirmative Action program and attempting to resolve employee and applicant EEO grievances is hereby assigned to the Fund's EEO Officer, Debbie Svaldi, P.O. Box 4759, Helena, Montana 59604; Telephone (406) 444-6523. The responsibility for development of the Fund's monitoring, compliance with and maintenance of the Fund's Affirmative Action plan shall rest with departmental managers, the EEO Officer, the Chief Executive Officer, and the Board of Directors of the Fund.

Any inquiries, questions, interpretations or grievances should be referred to the Personnel Office.

The current bargaining unit for the Workers' Compensation Division will be recognized as the bargaining unit for the State Compensation Mutual Insurance Fund.



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'E'**

### **FINANCIAL ADMINISTRATION**

**(Reporting Entity)**

**December 18, 1989**



OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING



STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

Date: December 29, 1989

Subject: Financial Administration: Reporting Entity:

Attached is a memorandum from Chuck Virag, Administrator of the Department of Administration's Accounting Division, pertaining to his analysis of the State Fund relative to its qualifications as a reporting entity of the State of Montana.

The examination of the State Fund as a reporting entity of the State of Montana was important due to its ramifications pertaining to the State Fund's compliance with "governmental accounting and financial reporting standards" and its compliance with state budgetary and financial rules , regulations and procedures.

Mr. Virag's memorandum of December 27, 1989, was the basis of Policy Statement #2: Reporting Entity, Policy Statement #3(b): Applicability of State Budgetary Rules and Procedures, and Policy Statement #4: State Budgetary and Accounting System.





DEPARTMENT OF ADMINISTRATION  
ACCOUNTING DIVISION



STAN STEPHENS, GOVERNOR

ROOM 255, MITCHELL BUILDING

STATE OF MONTANA

(406) 444-3092

HELENA, MONTANA 59620-0102

To: Bill Mandeville, Budget Analyst  
Office of Budget and Program Planning

From: Charles M. Virag *CV*  
Administrator

Date: December 27, 1989

Subject: State Compensation Mutual Insurance Fund - Component  
Unit Evaluation

I have evaluated the State Compensation Mutual Insurance Fund (State Fund) as a potential component unit of the State of Montana's financial reporting entity. My conclusion is that the State Fund does meet the criteria for inclusion in the State's financial reporting entity. This conclusion is based upon the following assessments:

1. The State of Montana exercises oversight responsibility over the State Fund. The significant factor in this determination is the State's assumption of some fiscal responsibility for the State Fund as exhibited by the levy of a .3% payroll tax on employers for the benefit of the Fund, and the transfer of \$20 million from the General Fund to the State Fund in Fiscal Year 1990.
2. The State Fund is required by law to insure any employer in this state requesting coverage. This is a significant service provided to the citizen's of Montana.

The National Council on Governmental Accounting Statements 3 and 7 and Interpretation 7 provide the criteria for determining whether a potential component unit is included in the reporting entity. I applied these criteria to arrive at the aforementioned conclusion. Following is a listing of the evaluation criteria, and my assessment of the application of these criteria to the State Fund.



State Compensation Mutual Insurance Fund  
Reporting Entity Evaluation Criteria

1. Oversight Responsibility
- a. Selection of Governing Authority

Section 2-15-1019, MCA, provides for the Governor's appointment of the State Fund's Board of Directors. It is not clear whether this is an authoritative appointment. In this case an authoritative appointment would be characterized by the maintenance of a significant continuing relationship between the Governor and the Board members with respect to the manner in which important functions of the State Fund are accomplished.

- b. Designation of Management

Section 39-71-2315, MCA, vests the management and control of the State Fund solely with the Board of Directors. Under Section 39-71-2317, MCA, the Board's authority includes the appointment of an executive director, who is responsible for the operation of the State Fund.

- c. Ability to Significantly Influence Operations

Budget Approval - The executive budget request will include the State Fund for presentation to the legislature as a technicality to comply with State statute requiring the appropriation of enterprise funds. The Board of Directors of the State Fund have the authority to approve budget modifications, and must present the modifications to the Office of Budget and Program Planning for informational purposes only.

Contracting Authority - Section 39-71-2316 (4), MCA, provides the State Fund with the authority to enter into contracts necessary for the administration of the Fund.

Hiring Authority - Under Section 39-71-2317, MCA, the executive director is provided with the authority to hire the management staff of the State Fund.

- d. Accountability for Fiscal Matters

Budgetary Authority - The executive budget request will include the State Fund for presentation to the legislature as a technicality to comply with State statute requiring the appropriation of enterprise funds. The Board of Directors



of the State Fund have the authority to approve budget modifications, and must present the modifications to the Office of Budget and Program Planning for informational purposes only.

Surplus/Deficits Entitlement and Responsibility - Section 39-71-2311, MCA, provides that the State Fund "must be neither more nor less than self-supporting. Premium rates must be set at a level sufficient to fund the insurance program,..." In addition, Section 39-71-2323, MCA, allows the State Fund to pay a dividend to employers contributing to the Fund in the event a surplus of assets over liabilities and a reasonable reserve exists at the end of any fiscal year. Finally, Section 39-71-2322, MCA, provides that if the authority for the State Fund is repealed, the money in the Fund is subject to the disposition provided by the legislature repealing the enabling act. Thus, the present laws do not provide a definitive assignment of responsibility for any unfunded liabilities in the event the Fund is abolished.

Fiscal Management - Section 39-71-2315, MCA, vests the management and control of the State Fund to the Board of Directors. In addition, Section 39-71-2316, MCA, grants the Fund with the authority to collect and disburse money received. Finally, Section 39-71-2320, MCA, provides that all money received by the State Fund and all property and securities acquired with that money are the sole property of the State Fund.

- e. Revenue Characteristics - Section 39-71-2311, MCA, requires the State Fund to establish premium rates at a level sufficient to fund the insurance program.

In addition to requiring the State Fund to establish a premium rate structure to provide funds for the insurance program, State law also provides funding for the program through the imposition of an employer payroll tax. Section 39-71-2503, MCA, imposes a payroll tax on each employer in an amount equal to .3% of the employer's payroll. This tax is earmarked to reduce the unfunded liability in the State Fund.

The 1989 Legislature, Special Session, appropriated \$20 million from the General Fund to the State Fund to offset the need for an employers' premium rate increase in Fiscal Year 1990.



2. Scope of Public Service

The State Fund is required by Section 39-71-2311, MCA, to insure any employer in this state requesting coverage.

3. Special Financing Relationships

The State Fund has no special financing relationships with the State.

In evaluating the State Fund with respect to these criteria, I have referred to Dave Darby's memorandum of November 7, 1989, which outlines significant policies that apply to the State Fund, and statutory provisions that I interpret as applicable. It is important that the committee assigned responsibility for developing the implementation plan for the State Fund agree with my interpretation of the State Fund's operating policies and related laws as they apply to the evaluation criteria. Please advise me if the committee disagrees with my interpretations of the State Fund's operating policies and related laws, or if I can provide further assistance.





# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'F'**

### **FINANCIAL ADMINISTRATION**

**(Designation of Fund Type)**

**December 18, 1989**



OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING



STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

Date: December 18, 1989

Subject: Financial Administration: Designation of Fund Type:

Attached is a memorandum from Chuck Virag, Administrator of the Department of Administration's Accounting Division, pertaining the designation of fund type for the State Fund.

Pursuant to MCA 2-15-1019, the Board of Directors of the State Fund is allocated to the department of administration for administrative purposes only as prescribed in MCA 2-15-121.

In accordance with MCA 2-15-121(2)(a), the department of administration is responsible for directing and supervising the budgeting, record keeping, and financial reporting of the State Fund.

The department of administration's designation of fund type causes the State Fund to comply with applicable accounting and reporting procedures as prescribed by the "Governmental Accounting and Financial Reporting Standards" (GASB).

Mr. Virag's memorandum of November 29, 1989, was the basis of Policy Statement #5: Designation of Fund Type.



DEPARTMENT OF ADMINISTRATION  
ACCOUNTING DIVISION



STAN STEPHENS, GOVERNOR

ROOM 255, MITCHELL BUILDING

STATE OF MONTANA

(406) 444-3092

HELENA, MONTANA 59620-0102

To: Dave Darby, Director  
Office of Budget and Program Planning

From: Chuck Virag *Chuck Virag*  
Administrator

Date: November 29, 1989

Subject: Accounting for the State Compensation Mutual Insurance Fund

Members of my staff recently met with Lois Steinbeck and representatives of the Department of Labor and Industry, including the Division of Workers' Compensation, to discuss the accounting and budgeting ramifications of the impending change in the workers' compensation insurance system. In response to the accounting questions raised at that meeting, we have researched the applicable accounting policies and statements and offer the following analysis and recommendations.

Background Information

Through passage of Senate Bill 428, the 1989 Legislature removed the responsibility for administration of the workers' compensation insurance system from the Department of Labor and Industry, Division of Workers' Compensation. In its place, the Legislature created the State Compensation Mutual Insurance Fund, which is a nonprofit, independent public corporation. The intent of this legislation as described in Senate Bill 428 is:

- "(1) to remove the inherent conflict between the interests of the workers' compensation division in regulating all workers' compensation insurers in this state, including the state compensation insurance fund, and the interests of the state fund as a workers' compensation insurer; and
- (2) to ensure the solvency of the new state fund."

This legislation is effective upon the signing of the executive order or January 1, 1990, whichever is earlier.



Dave Darby, Director

November 29, 1989

Page 2

Issues

The creation of the new State Compensation Mutual Insurance Fund raises two accounting and financial reporting questions:

(1) Is the State Compensation Mutual Insurance Fund included in the State of Montana's financial reporting entity?

(2) If the State Compensation Mutual Insurance Fund is included in the State of Montana's financial reporting entity, what is its proper fund placement?

#### Analysis of Issues

(1) Is the State Compensation Mutual Insurance Fund included in the State of Montana's financial reporting entity?

The National Council on Governmental Accounting (NCGA) Statements 3 and 7, and the NCGA Interpretation 7 provide the criteria necessary to make this determination. We cannot make this determination until the Fund's Board of Directors and the Governor's Office agree upon such issues as who possesses the authority to approve appropriations and budget amendments for the fund and establish related rules.

(2) If the State Compensation Mutual Insurance Fund is included in the State of Montana's financial reporting entity, what is its proper fund placement?

The Legislature's desire for separate reporting of the new Fund's activity is clearly indicated in the Statement of Intent included in Senate Bill 428, and the provisions of Section 39-71-2319, MCA. Section 39-71-2319, MCA, specifically requires the establishment of a new State Compensation Mutual Insurance Fund, and the transfer of all assets and liabilities from the old State Fund to this new Fund. In addition, the Legislature's intent that the Fund operate in a manner similar to private insurance carriers is indicated in Sections 39-71-2311 and 2313, MCA, which define the Fund as a domestic insurer, and require that it operate on a self-supporting basis. The Legislature also eliminated from Section 39-71-2321, MCA, the requirement that all revenue related to the Fund be deposited in the expendable trust fund.

Given the direction provided by the Legislature, placement of this Fund for accounting and financial reporting purposes is clearly defined by the Governmental Accounting Standards Board (GASB) Statement 10 and the NCGA Statement 1. The GASB Statement 10, Accounting and Financial Reporting for Risk Financing and





Dave Darby, Director  
November 29, 1989  
Page 3

Related Insurance Issues, requires governmental entities providing insurance coverage to individuals or organizations that are not a part of the governmental entity to account for this activity in an enterprise fund. In addition, the NCGA Statement 1 requires governmental entities to utilize an enterprise fund "to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges...." Based upon the above discussion, the State Compensation Mutual Insurance Fund is properly reported as an enterprise fund operation.

One other issue related to State Fund financial activity requires attention. This issue involves the proper reporting of the Administration Fund provided for under Section 39-71-201, MCA.

The Administration Fund is established to account for all costs of administering the Workers' Compensation and Occupational Disease Acts and the various occupation safety acts, and the receipt of the funds statutorily earmarked for the payment of these costs. The activity in this Fund related to the administration of the State Compensation Mutual Insurance Fund is properly reported in the associated enterprise fund. However, for statutory compliance purposes, we must continue accounting for this activity through the Statewide Budgeting and Accounting System (SBAS) in the State Special Revenue Fund. In order to allow for the proper reporting of this activity, we must establish a separate accounting entity for the administrative activities related to the State Fund.

#### Recommendations

1. Officials of the Accounting Division, Department of Administration, the Office of Budget and Program Planning (OBPP), and the State Compensation Mutual Insurance Fund must agree upon whether the Fund is a component of the State's reporting entity once Board rules are adopted.
2. The OBPP must determine if they have the authority to establish appropriation authority for the State Compensation Mutual Insurance Fund in the enterprise fund by December 15, 1989.
3. Unless it is determined that the Fund is excluded from the State's reporting entity and the Board elects to use an accounting system other than the SBAS, the following actions must occur:



- A. Officials of the State Compensation Mutual Insurance Fund must request the establishment of new enterprise fund and state special revenue fund accounting entities for the State Compensation Mutual Insurance Fund and the associated Administration Fund, respectively, by December 15, 1989. This is assuming that the OBPP determines they have the authority to appropriate the State Compensation Mutual Insurance Fund in an enterprise fund. If it is determined that they cannot do so, a new expendable trust fund must be requested for the State Compensation Mutual Insurance Fund.
- B. Beginning January 2, 1990, officials of the State Compensation Mutual Insurance Fund must account for all direct activity related to the Fund in the new enterprise fund or expendable trust fund accounting entity, and all administrative costs and associated funding in the new state special revenue fund accounting entity.
- C. Officials of the State Compensation Mutual Insurance Fund must transfer all assets and liabilities of the old Workers Compensation Insurance Fund as of the date the executive order is signed or December 31, 1990, whichever is earlier, to the new Fund by June 30, 1990. The officials must also identify and transfer from the old Administration Fund the portion of the assets and liabilities that relate to the Workers Compensation Insurance Fund to the new state special revenue fund accounting entity by June 30, 1990. These transfers must take place both in the SBAS and the Property Accountability and Management System.
- D. Officials of the State Compensation Mutual Insurance Fund must establish depreciation schedules for any fixed assets owned by the Fund and record current year and accumulated depreciation in the new enterprise fund by June 30, 1990. Depreciation on assets related to the new Administration Fund accounting entity should not be recorded in the SBAS, but reported by memo to the Accounting Division by August 31. This same procedure will also apply to depreciation on Fund assets in the event an expendable trust is used to account for the related financial activity.
- E. Officials of the State Compensation Mutual Insurance Fund must count all supplies inventory at December 31, 1989, and at June 30, 1990, and make the appropriate adjusting entries on the SBAS (enterprise fund) or report the adjustments by memo to the Accounting



Dave Darby, Director  
November 29, 1989  
Page 5

Division by August 31 (expendable trust and special revenue funds).

4. The Governor's Office should propose legislation to change Section 39-71-201, MCA, to: (1) provide for the transfer of funds earmarked to pay for the administrative costs of the State Compensation Mutual Insurance Fund to the enterprise fund; and (2) to provide for the recording of the administrative costs of the State Compensation Mutual Insurance Fund in the enterprise fund.
5. Fund officials should request all budget authority for the Fund's operation in the enterprise fund for the 1992-1993 biennium.

These recommendations address this issue from the accounting policy perspective, and are intended to portray the ideal transition under the circumstances known by my staff and me. We are certainly willing to discuss this issue with all interested parties and to provide whatever assistance we can with the accounting changes.

cc: Dave Ashley, Acting Director  
Department of Administration

Carla Smith, Chief  
Administrative Support Bureau  
Workers' Compensation Division

Brian McCullough, Chief  
Management Services Bureau  
Department of Labor and Industry



- A. Officials of the State Compensation Mutual Insurance Fund must request the establishment of new enterprise fund and state special revenue fund accounting entities for the State Compensation Mutual Insurance Fund and the associated Administration Fund, respectively, by December 15, 1989. This is assuming that the OBPP determines they have the authority to appropriate the State Compensation Mutual Insurance Fund in an enterprise fund. If it is determined that they cannot do so, a new expendable trust fund must be requested for the State Compensation Mutual Insurance Fund.
- B. Beginning January 2, 1990, officials of the State Compensation Mutual Insurance Fund must account for all direct activity related to the Fund in the new enterprise fund or expendable trust fund accounting entity, and all administrative costs and associated funding in the new state special revenue fund accounting entity.
- C. Officials of the State Compensation Mutual Insurance Fund must transfer all assets and liabilities of the old Workers Compensation Insurance Fund as of the date the executive order is signed or December 31, 1990, whichever is earlier, to the new Fund by June 30, 1990. The officials must also identify and transfer from the old Administration Fund the portion of the assets and liabilities that relate to the Workers Compensation Insurance Fund to the new state special revenue fund accounting entity by June 30, 1990. These transfers must take place both in the SBAS and the Property Accountability and Management System.
- D. Officials of the State Compensation Mutual Insurance Fund must establish depreciation schedules for any fixed assets owned by the Fund and record current year and accumulated depreciation in the new enterprise fund by June 30, 1990. Depreciation on assets related to the new Administration Fund accounting entity should not be recorded in the SBAS, but reported by memo to the Accounting Division by August 31. This same procedure will also apply to depreciation on Fund assets in the event an expendable trust is used to account for the related financial activity.
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Dave Darby, Director  
November 29, 1989  
Page 5

Division by August 31 (expendable trust and special revenue funds).

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5. Fund officials should request all budget authority for the Fund's operation in the enterprise fund for the 1992-1993 biennium.

These recommendations address this issue from the accounting policy perspective, and are intended to portray the ideal transition under the circumstances known by my staff and me. We are certainly willing to discuss this issue with all interested parties and to provide whatever assistance we can with the accounting changes.

cc: Dave Ashley, Acting Director  
Department of Administration

Carla Smith, Chief  
Administrative Support Bureau  
Workers' Compensation Division

Brian McCullough, Chief  
Management Services Bureau  
Department of Labor and Industry



**COOPERATIVE IMPLEMENTATION PLAN**

**PART 'G'**

**FINANCIAL ADMINISTRATION**

**(State Fund)**

**December 18, 1989**



# DEPARTMENT OF LABOR & INDUSTRY

## DIVISION OF WORKERS' COMPENSATION



STAN STEPHENS, GOVERNOR

MARGARET "PEG" CONDON BLDG.  
5 SO. LAST CHANCE GULCH

# STATE OF MONTANA

HELENA, MONTANA 59601

### FINANCIAL ADMINISTRATION OF THE STATE FUND

#### Financial Reporting:

Financial statements will be generated from information drawn from the Statewide Budgeting and Accounting System (SBAS). Financial information for the State Compensation Mutual Insurance Fund will be accessible at any time through the standard reporting procedures of SBAS. SBAS will be the official accounting and reporting system utilized by the Fund. An actuarial study will be conducted each year to determine the financial position of the Fund.

Administration  
406-444-6518

Division Telephones:  
Insurance Compliance  
406-444-6530

Safety  
406-444-6401

"AN EQUAL OPPORTUNITY EMPLOYER"



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART H**

### **INTERAGENCY AGREEMENTS**

**December 18, 1989**





Implementation Plan

December 18, 1989

Date: December 18, 1989

Subject: PROPOSED INTERAGENCY AGREEMENTS FOR STATE COMPENSATION  
MUTUAL INSURANCE FUND TRANSFER

### ISD SERVICES

Certain data processing services are under a shared data base structure. Information Services Division should be involved in any planning on how the reorganization might affect the data base structure. Workers' Compensation Division currently accounts separately for State Compensation Mutual Insurance Fund and Compliance processing by:

1. Assigning multiple responsibility centers to each ISD account number, or
2. By individual account number assignment when a particular service can be identified to be 100% accountable to one entity or the other.

The only difficulty will be in the ISD billing system where they currently do not allow an account number to be split among different agencies. A request to change this system by July 1, 1990, will be submitted. Until that change is implemented, when the State compensation Mutual Insurance Fund completes the record for agency portion of the no-warrant transfer (form 232) for ISD services, the agency/responsibility center for the Compliance share of the bill can be changed to the appropriate Department of Labor and Industry values. An agreement should be made as to who will approve and send a copy of this processed claim to the other agency.

### Date Base System

DLI & SCIMF will agree to meet and discuss maintenance & enhancements to the system as long as it is shared.

### INSURANCE PREMIUMS

Workers' Compensation Division (Agency 6603) is billed by Tort Claims Division for insurance premiums in the following



INSURANCE PREMIUMS: (continued):

## categories:

1. Property Insurance - This insurance covers the Workers' Compensation Building and its contents, and the premium is \$2,667.78 for FY90.
2. Boiler Insurance - This insurance covers the boiler in the Workers' Compensation Building, and the premium is \$320 for FY90.
3. Performance Bond - Total charge for this insurance for Agency 6603 in FY90 is \$306 based on the number of FTE in each of three classes (A, B & C) with Class A being the high risk class at a cost of \$4.622 per FTE and Classes B and C being lower risk at \$.231 per FTE. The number of FTE in each class is as follows:  
  
Class A - 61 FTE, Class B-65 FTE, Class C - 35 FTE
4. Automobile Insurance - Total premium for FY90 is \$2,483. A list of vehicles is attached.
5. Comprehensive General Liability - Total premium for FY90 is \$46,833 for Agency 6603.

WORKERS' COMPENSATION BUILDING

Debt service of \$2,507,200 for the Workers' Compensation Building remains outstanding as of the separation of the State Compensation Mutual Insurance Fund from Workers' Compensation Division. A copy of the debt service schedule is attached.

Currently, the agreement for payment of this debt service is between the Board of Examiners and Workers' Compensation Division of the Department of Labor and Industry. A new agreement will need to be executed between the Board of Examiners and the appropriate state agency.



1981 series

## AGREEMENT FOR FINANCING

THIS AGREEMENT, by and between the Workers' Compensation Division of the Department of Labor and Industry of the State of Montana (the "Division") and the Board of Examiners of the State of Montana (the "Board") dated as of the 23rd day of September, 1981..

WHEREAS, Chapter No. 604, Montana Session Laws, 1981 (House Bill No. 563), (the "Act"), authorizes the Board to issue and sell long-range building program bonds in an amount not exceeding \$31,550,505; and

WHEREAS, the Act provides that if the proceeds of any bonds are appropriated for the purpose of constructing a workers' compensation building in Helena, an agreement shall be entered into whereby the Division is to agree to pay debt service on the bonds issued for such purpose; and

WHEREAS, House Bill No. 666 appropriated \$4,000,000 from the account number 06142 in the bond proceeds and insurance clearance fund to the workers' compensation building contingent upon sale of the bonds; and

WHEREAS, the Board and the Division desire to implement the enabling legislation so as to provide funds for the construction of the workers' compensation building.

NOW THEREFORE, the parties agree as follows:

1. The Board shall use its best efforts to issue a Series 1981 issue of long-range building program bonds in an amount sufficient to provide \$4,000,000 funds for construction of the workers' compensation building in Helena.

2. The Division hereby agrees in accordance with Section 2 of the Act to pay the State Treasurer for deposit in the sinking fund account established pursuant to 17-5-405; M.C.A., an amount sufficient to pay, as due, the principal of and interest on long-range building program bonds issued for construction of the workers' compensation building, and to accumulate and maintain the required reserve attributable to those bonds which amount shall be determined by multiplying the total amount of payments in respect of principal, interest, redemption premium, if any, and reserve fund payments on the Series 1981 bonds by a fraction, the numerator of which shall be \$4,000,000 and the denominator of which shall be the total principal amount of Series 1981 long-range building program bonds issued.



3. To the extent not required for costs of completing the building, a proportionate part of the income from investment of the Series 1981 bond proceeds prior to expenditure and from investment of the reserve shall be credited against the Division's payment obligation set forth in Section 2 hereof. The reserve required by 17-5-405(4) shall be accumulated during the first year the bonds are outstanding.

4. The payments hereunder shall be made from revenues and moneys of the Division available therefor.

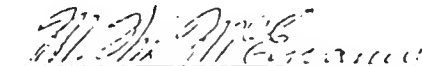
5. This agreement is solely for the benefit of the State and is not enforceable by the present or future holders of long-range building program bonds. This agreement may be modified or amended from time to time by the parties hereto to the extent now or hereafter authorized by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and their corporate seals to be affixed hereto, all as of the day and year first above written.

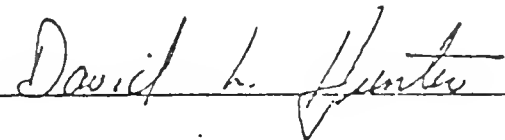
MONTANA STATE BOARD OF EXAMINERS

  
Chairman

(SEAL)

  
Executive Secretary

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY

By: 





## AMENDMENT TO AGREEMENT

This Amendment to Agreement is between the Division of Worker's Compensation (hereinafter, Worker's Compensation) and the Board of Examiners of the State of Montana (the Board) and is dated as of August 1, 1983. Worker's Compensation and the Board agree as follows:

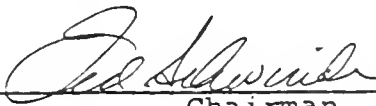
(1) Worker's Compensation and the Board entered into an agreement dated as of September 1, 1981 (the Agreement) pursuant to which the Board issued \$4,000,000 principal amount of its long-range building program bonds (the Program Bonds) to finance a facility at Helena, Montana and Worker's Compensation agreed to make payments from certain of its revenues defined therein for the payment of the principal of and interest on the Program Bonds and to establish and maintain the required reserves therefor. The Board proposes to refund the Program Bonds by the issuance of its General Obligation Refunding Bonds, Series 1983A (the Refunding Bonds). As a result of the refunding, certain amendments to the Agreement as herein set forth and agreed to will be required.

(2) The Refunding Bonds issued to refund the Program Bonds shall be dated August 1, 1983, shall mature on August 1 in the years and amounts and bear interest at the rates set forth on Exhibit A attached hereto. Worker's Compensation shall make payments under the Agreement to the State Treasurer for deposit in the Debt Service Account for the Refunding Bonds at the times and in the amounts set forth in Exhibit A.

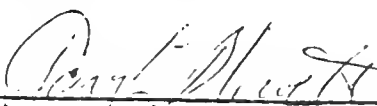
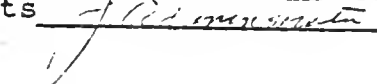
(3) The reserve established by the Agreement for the Program Bonds shall, upon issuance of the Refunding Bonds, be deposited to an escrow account for payment and defeasance of the Program Bonds.

(4) Except to the extent herein amended all of the terms and provisions of the Agreement shall remain in full force and effect.

BOARD OF EXAMINERS OF THE  
STATE OF MONTANA

  
Chairman

DIVISION OF WORKER'S  
COMPENSATION

By   
Its 



WORKERS COMPENSATION DIVISION  
SHARE OF 1983 SERIES A G.O. REFUNDING BONDS (FROM 1981)

FY	Payment Dates	(08-01) Principal	Interest	Total
✓84	02-01-84		135,887.50	135,887.50
✓85	08-01-84		135,887.50	305,887.50
✓85	02-01-85	170,000.00	128,662.50	128,662.50
✓86	08-01-85		128,662.50	313,662.50
✓86	02-01-86	185,000.00	120,800.00	120,800.00
✓87	08-01-86		120,800.00	320,800.00
✓87	02-01-87	200,000.00	112,300.00	112,300.00
✓88	08-01-87		112,300.00	327,300.00
✓88	02-01-88	215,000.00	103,162.50	103,162.50
✓89	08-01-88		103,162.50	338,162.50
✓89	02-01-89	235,000.00	93,175.00	93,175.00
✓90	08-01-89		93,175.00	348,175.00
90	02-01-90	255,000.00	82,337.50	82,337.50
91	08-01-90		82,337.50	357,337.50
91	02-01-91	275,000.00	70,650.00	70,650.00
92	08-01-91		70,650.00	370,650.00
92	02-01-92	300,000.00	58,425.00	58,425.00
93	08-01-92		58,425.00	383,425.00
93	02-01-93	325,000.00	44,775.00	44,775.00
94	08-01-93		44,775.00	394,775.00
94	02-01-94	350,000.00	29,637.50	29,637.50
95	08-01-94		29,637.50	409,637.50
95	02-01-95	380,000.00	12,775.00	12,775.00
96	08-01-95		12,775.00	292,775.00
		280,000.00		



LIC.#	Make	Model	Type	YEAR	VIN Number	Cost	Agency
M-3933	Chevrolet	4 dr sedan	pass	1988	1GAG51E3J6220436	5500	workers comp.
M-4158	GMC	1.2t. pickup	lt	1985	1GTEK14H3FF715547	8100	workers comp.
M-4387	GMC	van	pass	1978	T6D1534 518 138	1000	workers corp.
M-4465	Ford	4.4 pickup	lt	1983	1FTEF14G7DPA90231	5800	workers comp.
M-4781	Ford LTD	4 dr sedan	pass	1984	1F42P43F7E2112170	3000	workers comp.
M-4793	Plymouth fury	4 dr sedan	pass	1982	2F3BE26F0DR17529	2000	workers comp.
M-4794	Ford LTD	4 dr sedan	pass	1984	1FAFP43F9E2112166	3000	workers comp.
M-4964	GMC	1.2t. pickup	lt	1985	1GTEK14H3FF715548	8100	workers comp.
M-5178	Chevrolet cavalier	4 dr sedan	pass	1989	1G1AG51W5J6219739	7000	workers comp.
M-5196	Ford	4.4 pickup	lt	1983	1FTEF14G4DPA92003	5800	workers comp.
M-5339	Chevrolet	4 dr sedan	pass	1986	1G1AG1PXX66244148	5000	workers comp.
M-5370	Chevrolet	4 dr sedan	pass	1983	1G1AW51W5J6221329	7000	workers comp.
M-5457	Dodge Diplomat	4 dr sedan	pass	1982	2B3B626L62R186656	2000	workers comp.
M-5459	Chevrolet	4 dr sedan	pass	1982	1G1F051W2J6219746	3500	workers comp.
M-5785	Ford LTD	4 dr sedan	pass	1984	1FA2P43F7E2112167	2000	workers comp.
M-5790	Oldsmobile	Station Wagon	pass	1985	1G3A13533F0381042	5000	workers comp.
M-5873	Chevrolet	4dr. sedan	pass	1986	1G1AW19Y2B6244144	5000	workers comp.
M-5873	Chevrolet	4dr. sedan	pass	1986	1G1AW19Y2B6244144	5000	workers comp.
M-5880	Chevrolet	4dr. seda	pass	1986	1G1AW19Y2B6244142	5000	workers comp.
M-6001	Chevrolet	4dr. sedan	pass	1982	1G1AW51W3J6221778	3500	workers corp.
M-6002	Chevrolet	4dr. sedan	pass	1988	1G1AW51W7J6221731	3500	workers comp.
M-6002	Chevrolet	4dr. sedan	pass	1982	1G1AW51W3J6220460	3500	workers comp.
M-6004	Chevrolet	4dr. sedan	pass	1982	1G1AW51W9J6219761	3500	workers comp.
M-6005	Chevrolet	4dr. sedan	pass	1983	1G1AW51W4J6221143	3500	workers comp.
M-6006	Chevrolet	4dr. sedan	pass	1982	1G1AW51W1J6221613	3500	workers comp.
*New	Chevrolet	4dr. sedan	pass	1989	1G1AW51W2J622-087	3500	workers comp.
*New	Chev. Blazer		pass	1989	1GCEV16K6 F135594	14000	workers comp.



# **COOPERATIVE IMPLEMENTATION PLAN**

## **PART 'I'**

### **APPENDIXES**

**December 18, 1989**





# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #1**

**(State Fund Organizational Chart)**

**December 18, 1989**



Date: December 18, 1989

Subject: Preliminary Draft of the State Fund & Organization Chart

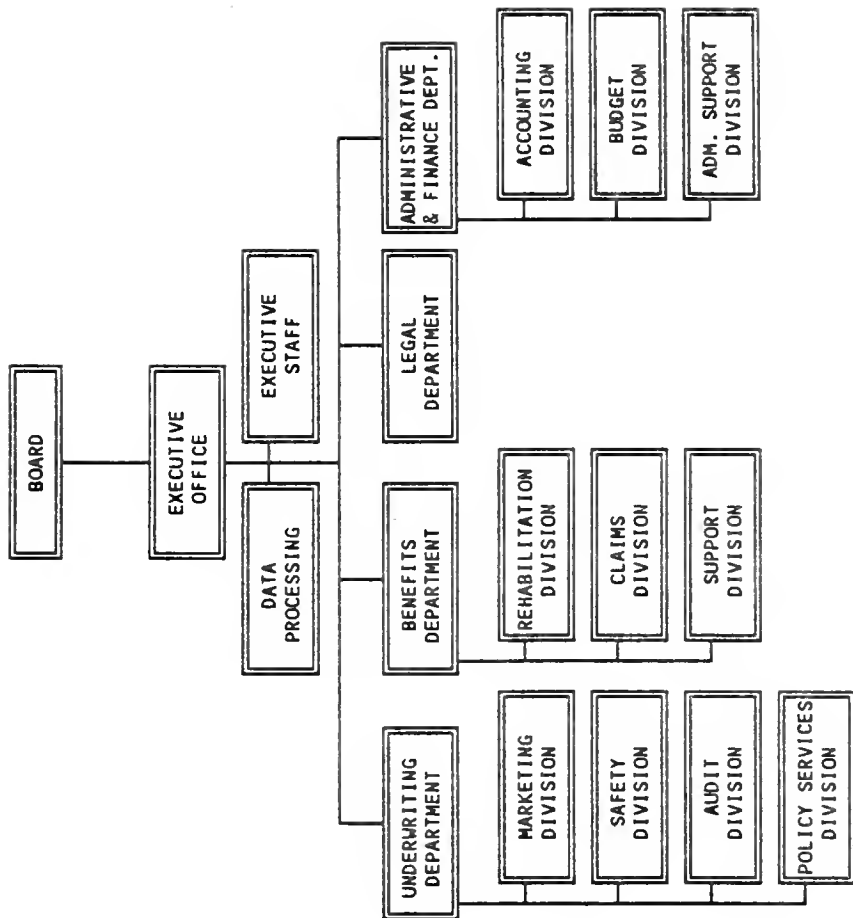
Organizational Chart

This is a draft of the organizational chart for the new State Compensation Mutual Insurance Fund. This chart may be subject to change prior to being submitted for the Governor's approval.



DRAFT

STATE COMPENSATION MUTUAL  
INSURANCE FUND  
ORGANIZATIONAL CHART



SCMIF007.ORG 12/08/89

DRAFT



# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #2**

**(Actuarial Report)**

**December 18, 1989**





STATE OF MONTANA  
DEPARTMENT OF LABOR AND INDUSTRY  
DIVISION OF WORKERS' COMPENSATION  
STATE COMPENSATION INSURANCE FUND

**Review of Operations For**  
**Fiscal Year Ending June 30, 1989**

**Introduction and Summary**

This report summarizes the final results of our review and analysis of the liabilities for benefit payments, the loss ratios, and to determine appropriate amounts to be allocated to the other reserves and fund balances for the fiscal year ending June 30, 1989.

The principal purpose of these analyses has been to test the adequacy of the amount set aside each year for benefit liabilities and to measure the extent to which current premiums have provided for current benefits incurred, and any additional liability arising from claims incurred in previous years. Under normal operations, each year's premium should be adequate to provide for all present and future payments of all benefits incurred during that year, whether or not reported, with a margin for unpredictable contingencies. The liabilities and benefit reserves established should be sufficiently large so as to minimize the necessity of assessing future employers for losses that were incurred in prior years.

In actual practice, it is impossible to predict the exact cost of individual claims, to foresee increases in hospital and medical expense charges, and to evaluate the extent to which more liberal benefit payments may be granted to persons disabled in previous years or their dependents. It is necessary, therefore, to revise the estimates each year and, if indicated, to call upon either premium income, current investment income or favorable experience to offset such an unanticipated increase in benefit costs. Since claims do have a tendency to fluctuate from year to year, it is also necessary for us to analyze these fluctuations and predict, if possible, the underlying trends in





claims development and differentiate that from the fluctuation about those trends that occurs in a given year.

Thus, if claims are plotted on a graph, we expect to see many peaks and valleys. We attempt to find a smooth relationship somewhere between these peaks and valleys. The fluctuation can then be relegated to a fluctuation reserve that is established to assure that premiums do not jump up and down in a seemingly random manner but have a smooth transition from year to year.

### Summary

A review of the operations for the fiscal year ending June 30, 1989, shows an underwriting loss from operations of (\$76,350,121). The net result is such that as of June 30, 1989 the liabilities of the Fund exceeded the assets by (\$217,649,934). Included in this underwriting loss is an adjustment of \$77,613,785 for claims incurred prior to July 1, 1988 (see Schedule C). When this is removed from the above underwriting loss, the result is that 1988-89 fiscal year earned premiums exceeded claims incurred plus expenses reported by \$1,263,664. Note that this does not include an accrued payroll tax of \$12,991,267 for the year.

It must be pointed out that the incurred claims estimates for the 1987-88 and 1988-89 accident years are heavily dependent upon an estimated 20% to 25% savings as a result of the passage of SB315. We have verified the appropriateness of this estimate through continuing discussions with staff with regard to settlements under the new law. A firmer determination of these savings will only be possible once additional claims experience becomes available.

Our calculations have been based upon an assumed annual interest rate of 7%. This rate is based upon expectations of future investment returns over the duration of the benefit liabilities and is representative of the current level of return on Fund assets.

The premium income was about 3% higher than that earned in 1988. The investment income showed a 21% decrease from the previous year. Administrative and other nonclaim expenses increased by 11%.



In our opinion, based upon the information and data furnished to us, the liabilities for benefit payments set forth in this report as of June 30, 1989 are, in the aggregate, reasonable and appropriate. This is based on our assumption that the procedures of the Division are adequate to properly establish and maintain the records on which these results are based. Because a negative Unrestricted Fund Balance exists as of June 30, 1989, future premiums will need to be drawn upon to satisfy the existing liabilities of the Fund. The continuing financial soundness of the Fund is therefore conditioned upon these future premiums being realized.

We are pleased to present our final report and will be more than happy to discuss it with you at your convenience.

Respectfully submitted,

C&B CONSULTING GROUP

By 

Drew James, F.S.A., M.A.A.A.  
Vice President and  
Senior Consulting Actuary

DJ:kf





## Balance Sheet

For comparison purposes, we are setting forth in **Schedule A** a summary of the assets and liabilities for each of the three past fiscal years. This comparison will give some indication of growth in assets and changes in the liabilities and reserves over those three years. The assets relating to the fiscal year ending June 30, 1989 were derived from the figures shown in the State Insurance Fund preliminary annual report prepared by the Division. Liability items have been arranged as noted below with comments on specific items.

The reserves were calculated by CH&E using actuarial techniques commonly used in the insurance industry. The definitions of the various reserves set by CH&E are as follows:

Liabilities for Benefit Payments - The amounts shown as liabilities for benefit payments have been calculated each year as the amount required to fully provide for liability on all claims which have been incurred up to the current statement date.

Liabilities for Dividends Payable - The unallocated reserves available for dividends is determined each year based upon any favorable experience during the year.

Reserve for Contingencies - The items under the heading of Reserves for Contingencies are reserve funds that are normally considered as being desirable under any insurance operation under which unforeseen contingencies could arise. In the past, separate reserves were set up for catastrophe, claim fluctuations, medical cost fluctuation, security valuation and rate stabilization. The results of our June 30, 1989 review are such that the liabilities exceed the assets by \$217,649,934. Therefore, there are no funds presently available as a contingency reserve.





# STATE COMPENSATION INSURANCE FUND

## Balance Sheet

	<u>6/30/87</u>	<u>6/30/88</u>	<u>6/30/89</u>
<u>Assets</u>			
Cash	\$ 1,576,799	\$ 753,142	\$ 288,675
Bonds and Other Mortgages	33,561,518	27,075,657	22,353,150
F.H.A. Mortgages	171,868	153,857	131,476
Premium Receivable	18,599,465	23,847,773	25,833,190
Other Assets	<u>8,478,735</u>	<u>12,908,990</u>	<u>13,826,992</u>
Total	<u>\$ 62,388,385</u>	<u>\$ 64,739,419</u>	<u>\$ 62,433,483</u>
<u>Liabilities</u>			
Accounts Payable	\$ 775,816	\$ 642,066	\$ 464,756
Advance Deposits	14,179,979	15,001,503	15,023,158
Uncleared Collections	-	543	-
Allowance for Uncollectible Accounts	-	-	-
Deferred Revenue	2,440	-	-
Benefit Payments	196,598,638	206,427,946	264,595,503
Dividends Payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 211,556,873</u>	<u>\$ 222,072,058</u>	<u>\$ 280,083,417</u>
Reserves for Contingencies	\$ -	\$ -	\$ -
Unrestricted Fund Balance	\$ (149,168,488)	\$ (157,332,639)	\$ (217,649,934)
GRAND TOTAL	<u>\$ 62,388,385</u>	<u>\$ 64,739,419</u>	<u>\$ 62,433,483</u>





### Detail for Claims Liabilities and Reserves

Schedule B, which follows, shows a comparative summary setting forth the specific amounts set aside for benefit payments attributable to claims incurred and outstanding at the end of each of the past three years. These are segregated into Compensation, Medical, and Medical Only claim items. The schedule also gives the annual increase in these liabilities and reserves, the paid claims for the year, and the incurred claims for the past three fiscal years. The liabilities and reserves for benefit payments as shown in the schedule are the best estimates of the amounts required in the future to pay for benefits accrued to date.

The setting of individual claim liabilities is required to allocate best estimate claim amounts to individual employers and classes of risk. However, these liabilities are judgmental numbers. We determine our liability estimates based on statistical experience of the past projected into the future. This method gives us an indication of whether the individual claim liabilities are established at reasonable levels compared to past experience of actual run-off claim expense. It should be noted that, in prior years, the Fund's Accounting staff developed preliminary financial statement claims liability by adding the individual claims liabilities set by the staff Reserve Analyst to the previous year's actuarial adjustment. The procedure was modified as of June 30, 1989, when the preliminary financial statement reserve was taken from our April 26, 1989 report on the development of the recommended July 1, 1989 rate increase. As a result, we have modified the following exhibit to reflect the actual claims file liabilities before any adjustment. We believe this will provide more consistent, as well as useful information.

It should be noted that the decrease in the Medical Only claims category is due entirely to a more precise reporting of these claims through the Fund's computer system, and has no other significance. In the past, some medical payments for compensable claims had been reported as Medical Only.

A reopened claim reserve is used to account for claims expected to be reopened in the future. This reserve is calculated as a function of claims closed during the current and recent prior fiscal years.



STATE COMPENSATION INSURANCE FUND  
Detail for Claim Liabilities and Reserves

	Year Ending		
	6/30/87	6/30/88	6/30/89
<u>Compensation</u>			
Claim file liabilities	\$ 119,263,592	\$ 129,685,168	\$ 141,039,902
Actuarial adjustment to claim file liabilities	23,120,698	21,081,195	50,420,963
Reopened claim reserves	2,610,000	2,764,000	3,510,000
Claim admin. expense reserves	4,500,000	4,500,000	4,500,000
Total	\$ 149,494,290	\$ 158,030,363	\$ 199,470,865
<u>Medical</u>			
Claim file liabilities	\$ 13,586,139	\$ 14,593,342	\$ 15,222,258
Actuarial adjustment to claim file liabilities	29,530,209	27,603,692	44,356,380
Reopened claim reserves	2,413,000	2,362,000	3,335,000
Claim admin. expense reserves	900,000	900,000	900,000
Total	\$ 46,429,348	\$ 45,459,034	\$ 63,813,638
<u>Medical Only</u>			
Claim file liabilities	\$ -	\$ -	\$ -
Actuarial adjustment to claim file liabilities	625,000	2,213,550	1,261,000
Claim admin. expense reserves	50,000	50,000	50,000
Total	\$ 675,000	\$ 2,938,550	\$ 1,311,000
GRAND TOTAL	\$ 196,598,638	\$ 206,427,947	\$ 264,595,503

Incurred Claims

	Year Ending		
	6/30/87	6/30/88	6/30/89
<u>Compensation</u>			
Annual increase in liabilities and reserves	\$ 46,141,810	\$ 8,536,073	\$ 41,440,502
Paid claims	54,036,180	63,238,309	67,109,189
Incurred compensation claims	\$ 100,177,990	\$ 71,774,382	\$ 108,549,691
<u>Medical and Medical Only</u>			
Annual increase in liabilities and reserves	\$ 12,338,773	\$ 1,293,235	\$ 16,727,054
Paid claims	25,513,860	27,319,541	30,628,254
Incurred medical and medical Only claims	\$ 37,852,633	\$ 28,612,776	\$ 47,355,308
TOTAL INCURRED CLAIMS	\$ 138,030,623	\$ 100,387,158	\$ 155,904,999





### Summary of Five-Year Premium Earned and Claims Incurred

As a further analysis of the incurred claims, Schedule C gives a summary of the five-year premiums earned and claims incurred. This schedule lists the liability increase on account of prior years' claims, the incurred claims for the current year, and the total claims experience as recorded in the financial statement. The premiums earned are the accrued premiums for the year. The ratios of incurred premiums to claims are given for the current year's claims and for the financial statement reported number in Schedule C, total column.

There was a \$77,613,785 liability increase due to prior years claims, of which \$15,082,712 is net interest accrued. The remaining \$62,531,073 represents an addition to the June 30, 1988 benefit liabilities reported in our Review of Operations as of that date, of which about \$8,154,000 is due to a decrease in the discount rate from 8% to 7%. As a result, we would now estimate that the unrestricted fund balance as of June 30, 1988 at (\$219,863,712), instead of (\$157,332,639) as reported last year.





# SCHEDULE C

## STATE COMPENSATION INSURANCE FUND Summary of Five-Year Premiums Earned and Claims Incurred

	Liability Increase On Account of Prior Years' Claims	Current Year	Total
--	--	-----------------	-------

### Fiscal Year ending June 30, 1985 (70th year)

Premium earned in the year		\$ 49,292,000	\$ 49,292,000
Claims incurred including adjust- ments for prior years	\$36,380,726	45,010,950	81,391,676
Ratio of claims incurred to premium earned		91.3%	165.1%

### Fiscal Year ending June 30, 1986 (71st year)

Premium earned in the year		\$ 50,861,306	\$ 50,861,306
Claims incurred including adjust- ments for prior years	\$31,914,389	67,373,084	99,287,473
Ratio of claims incurred to premium earned		132.5%	195.2%

### Fiscal Year ending June 30, 1987 (72nd year)

Premium earned in the year		\$ 70,161,068	\$ 70,161,068
Claims incurred including adjust- ments for prior years	\$60,915,916 <sup>(1)</sup>	77,114,827	138,030,623
Ratio of claims incurred to premium earned		109.9%	195.3%

### Fiscal Year ending June 30, 1988 (73rd year)

Premium earned in the year <sup>(2)</sup>		\$ 85,865,028	\$ 85,865,028
Claims incurred including adjust- ments for prior years	\$ 25,270,973	\$ 75,116,185	100,387,158
Ratio of claims incurred to premium earned		87.5%	116.9%

### Fiscal Year ending June 30, 1989 (74th year)

Premium earned in the year <sup>(3)</sup>		\$ 88,448,120	\$ 88,448,120
Claims incurred including adjust- ments for prior years	\$77,613,785 <sup>(4)</sup>	78,291,214	155,904,999
Ratio of claims incurred to premium earned		88.5%	176.3%

(1) Includes \$5,896,000 for reduction in discount rate from 9½% to 8%.

(2) Excludes \$10,952,370 of payroll tax collected pursuant to HB884.

(3) Excludes \$12,991,267 of payroll tax collected pursuant to HB884.

(4) Includes \$8,154,000 for reduction in discount rate from 8% to 7%.



### Summary of Underwriting Operations

In Schedule D, which follows, there is presented a summary of underwriting operations for each of the past three fiscal years. This is presented in a somewhat different form from that shown in your financial statement and has been derived from the figures appearing in these statements. Shown first are the reported premiums earned for each of the last three years on an accrual basis. The totals of the claims incurred and the expenses reported are shown for each year with the claims incurred figure including the claims expense reserve increases. On line 5 is the underwriting gain (loss) for each year. This gain (loss) is the balance left after taking claims and expenses out of premium income.

The final line of this summary of underwriting operations shows that during the 1989 fiscal year, (\$60,317,295) has been added to the Unrestricted Fund Balance of (\$157,332,639) on June 30, 1988 for a total Unrestricted Fund Balance of (\$217,649,934) as of June 30, 1989.





SCHEDULE D

STATE COMPENSATION INSURANCE FUND

Summary of Underwriting Operations

	<u>6/30/87</u>	<u>6/30/88</u>	<u>6/30/89</u>
1. Earned premium reported	\$ 70,161,068	\$ 85,865,028	\$ 88,448,120
2. Claims incurred	138,030,623	100,387,158	155,904,999
3. Expenses reported	<u>6,248,421</u>	<u>8,009,266</u>	<u>8,893,242</u>
4. Total claims & expenses Items 2 plus 3	\$ 144,279,044	\$ 108,396,424	\$ 164,798,241
5. Underwriting gain/(loss) Items 1 minus 4	\$ (74,117,976)	\$ (22,531,396)	\$ (76,350,121)
6. Investment income	6,257,711	3,578,623	2,811,894
7. Other income	525,333	41,642	33,186
8. Payroll tax accrued	<u>-</u>	<u>10,952,370</u>	<u>12,991,267</u>
9. Total income Items 5 plus 6, 7 and 8	\$ (67,334,932)	\$ (7,958,761)	\$ (60,513,774)
10. Unallocated reserves available for dividends	\$ -	\$ -	\$ -
11. Increase/(decrease) in rate stabilization claim and medical cost fluctuations reserves	\$ -	\$ -	\$ -
12. Increase/(decrease) in security valuation reserve	-	-	-
13. Increase/(decrease) in catastrophe reserve	-	-	-
14. Adjustment to reflect unamortized portion of bond swaps made in prior years	-	-	-
15. Miscellaneous prior years' adjustments	<u>\$ (811,589)</u>	<u>\$ (205,390)</u>	<u>\$ 196,479</u>
16. Total increase/(decrease) in reserves and liabilities. Item 9 minus 10, 11, 12, and 13.	\$ (68,146,521)	\$ (8,164,151)	\$ (60,317,295)





# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #3**

**(Actuarial Statement at Time of Transfer)**

**December 18, 1989**





# DEPARTMENT OF LABOR & INDUSTRY

## DIVISION OF WORKERS' COMPENSATION



STAN STEPHENS,

GOVERNOR

MARGARET "PEG" CONDON BLDG  
5 SO. LAST CHANCE GULCH

# STATE OF MONTANA

HELENA, MONTANA 59601

### ACTUARIAL STATEMENT OF THE STATE FUND AT THE TIME OF TRANSFER

The actuarial review of the operations of the Division of Workers' Compensation for fiscal year ending June 30, 1989 shows that the liabilities of the State Fund exceeded the assets by \$217,649,934. Because of the complexities of conducting an actuarial review, it is not feasible to provide a condition of the State Fund at the time of transfer. There will be an actuarial review of the Fund for the fiscal year ending June 30, 1990 and at that time the condition of the Fund will be reported. The actuarial review is usually released in November following the fiscal year of the review.



# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #4**

**(Profit and Loss Statement)**

**December 18, 1989**



# DEPARTMENT OF LABOR & INDUSTRY

## DIVISION OF WORKERS' COMPENSATION



STAN STEPHENS, GOVERNOR

MARGARET "PEG" CONDON BLDG.  
5 SO. LAST CHANCE GULCH

# STATE OF MONTANA

HELENA, MONTANA 59601

### FINANCIAL STATEMENTS

Financial statements will be provided to the Board of Directors for the State Compensation Mutual Insurance Fund upon the request of the Board. The format of the statements will depend on the information desired by the Board. An annual balance sheet and a statement of changes in fund balance will be provided in the annual actuarial review .

Administration  
406-444-6518

Division Telephones:  
Insurance Compliance  
406-444-6530

Safety  
406-444-6401

"AN EQUAL OPPORTUNITY EMPLOYER"



# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #5**

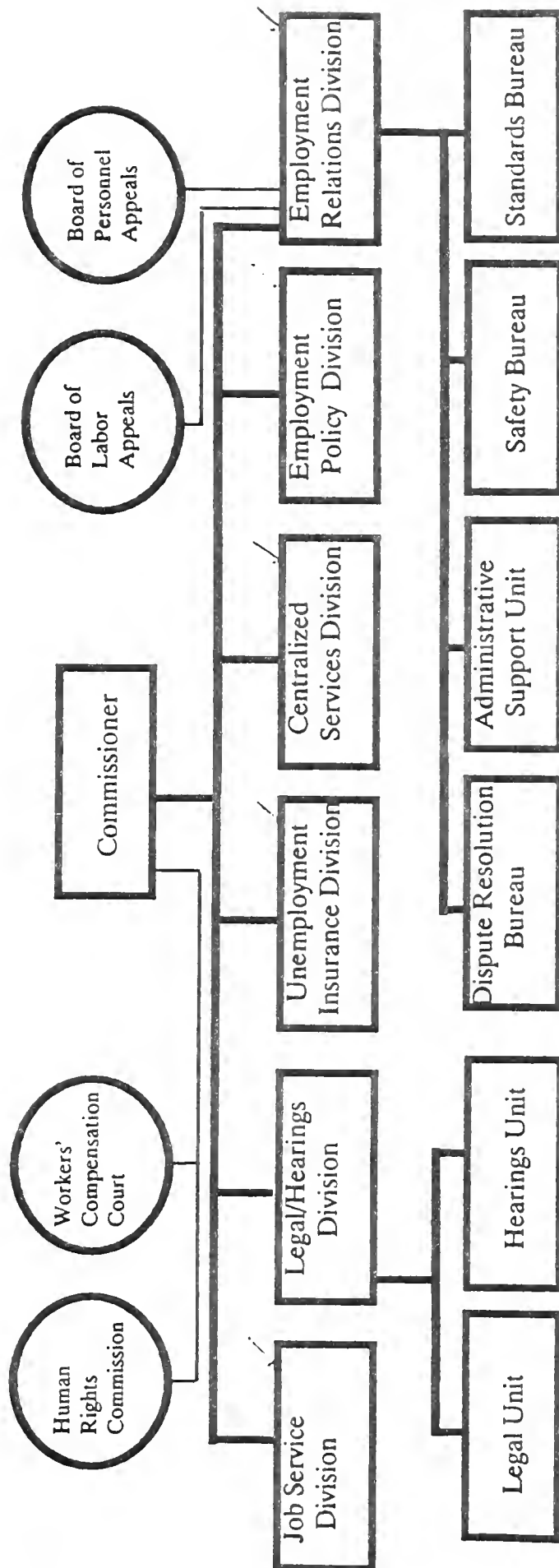
**(DLI's Proposed Organization Chart)**

**December 18, 1989**





# Montana Department Of Labor And Industry 1989 Reorganization





# **COOPERATIVE IMPLEMENTATION PLAN**

## **APPENDIX #6**

**(Outstanding Issues)**

**December 18, 1989**



Date: December 18, 1989

Subject: Pending Issues

The following issues are still pending. They are related to the separation of the Workers' Compensation Division from the Department of Labor and Industry. They are still pending because they are operationally intertwined which makes it difficult to separate them.

The issues are as follows:

1. Partitions and desks in the Peg Condon Building do blend in well with the building.

*Issue*

~~Problem:~~ When either the new Mutual Insurance Company or the Department of Labor leave the Peg Condon Building, the party leaving will be short desks, shelving and partitions that will be necessary in their new location.

Question: Is the party leaving granted authority from the party staying to purchase replacement desks, shelving and partitions or does the leaving party take them from the building?

2. Staff for Accident Cataloging (6.5) FTE have been left with the State Compensation Mutual Insurance Fund (SCMIF) because the function was behind in their workload and the new SCMIF has been interpreted to have more flexibility to add staff and budget necessary to resolve the backlog problem then the Department of Labor and Industry (DLI). This function is also intertwined in its service it provides to DLI and SCMIF.

*Issue*

~~Problem:~~ When staff is split as of June 30, 1990 the staff and budget that relates to their cost to DLI must be incorporated into DLI's budget retroactively for FY90.

Question: Since DLI is in a different agency code how will this happen?



3. Data Base System that is on the Department of Administration's (D of A) Computer is used by both SCMIF and DLI.

Problem: Public perception may cause other insurers to think the separation never occurred. The system may have maintenance/enhancements made to it at the direction of either DLI or SCMIF. This could cause major problems for the system user that was not aware of the change.

Question: Should DLI and SCMIF start perusing an estimate of the cost to separate the system by the end of the next biennium?

4. Arcade Building Budget

Problem: SCMIF would like it to stay in their budget until the building issue is resolved. DLI would like it moved to their budget because they are in the Arcade building now so they feel it should go with them.

Question: Where does OBPP feel the budget should go?

5. 1-800 Line and Receptionists

Problem: As the public becomes aware of the different functions will they start shifting their calls to DLI rather than SCMIF? If this occurs, we will not know about the significance of it until after June 30, 1989.

Question: In the preparation of the next biennium's budget how should this budget shift from SCMIF to DLI be accomplished if the workload does shift?

6. Automated Equipment

Problem: As DLI pulls away from the WANG DLI, staff will need replacement Automation Equipment.

Question: Does DLI keep part of the WANG or does the SCMIF receive additional appropriation authority to reimburse DLI for the WANG equipment? To compound the problem D.O.A. is making decisions on ownership of the connecting software to the mainframe. This decision will have a significant impact on the cost of the equipment.

{If SCMIF reimburses DLI, then DLI could purchase the automated equipment they need.}





7. WORKERS' COMPENSATION BUILDING

Problem: Debt service of \$2,507,200 for the Workers' Compensation Building remains outstanding as of the separation of the State Compensation Mutual Insurance Fund from Workers' Compensation Division. Currently, the agreement for payment of this debt service is between the Board of Examiners and Workers' Compensation Division of the Department of Labor and Industry. A new agreement will need to be executed between the Board of Examiners and the appropriate state agency.

Question: Who owns the Condon Building -- the newly created State Fund or the Department of Labor and Industry?

Indications are that the State's financial statements does not include the Condon Building in the State Compensation Insurance Fund's assets.

On the other hand, the Condon Building is referred to as the "Worker's Compensation Building". For nearly ten years, the Condon Building has been the headquarters of the State Compensation Insurance program. Debt service payments for the building have come from the Worker's Compensation Division.

The question of ownership will need to be resolved prior to executing a new agreement between the Board of Examiners and the appropriate state agency.





